

CITY OF ROCKVILLE THRIFT PLAN

**Analysis of Investment Performance
Through June 30, 2007**



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October 2007



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October 2, 2007

Thrift Plan Committee
Rockville City Hall
111 Maryland Avenue
Rockville, MD 20850

Dear Committee Members:

This report provides an updated analysis of the performance of the City of Rockville's Thrift Plan for the various periods ended June 30, 2007.

The Principal MidCap Stock A Fund and the Principal LifeTime Separate Accounts were added to the Plan effective April 1, 2007.

The Principal Large Company Value Account was terminated effective 4/1/07. Assets were mapped into the Vanguard Windsor II Fund. In addition, the American Century Small Cap fund was also terminated effective 4/1/07. Assets were mapped into the Principal Small Cap Value fund.

Sincerely,

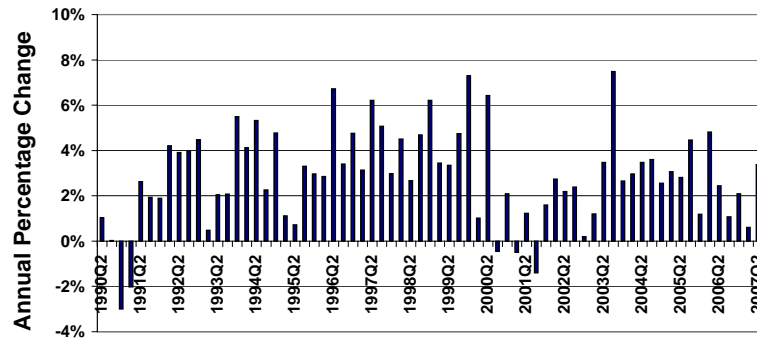
Robert A. Liberto
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Macroeconomic Themes

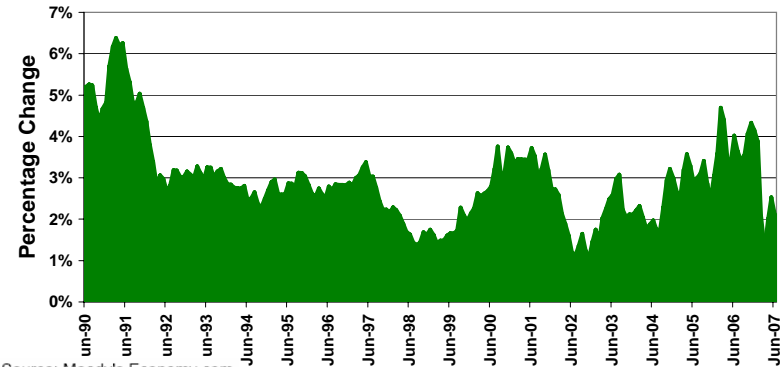
GDP



Source: Moody's Economy.com

- Q2 2007 GDP advanced at a 3.4% annualized rate, up from a revised 0.6% in Q1 2007. This is above consensus expectations. The rebound in growth in the second quarter was due to an improvement in the trade balance, stronger federal government spending, greater investment in nonresidential structures, and a smaller contraction in homebuilding.
- Real consumer spending decelerated sharply, preventing a sharper increase in overall GDP.

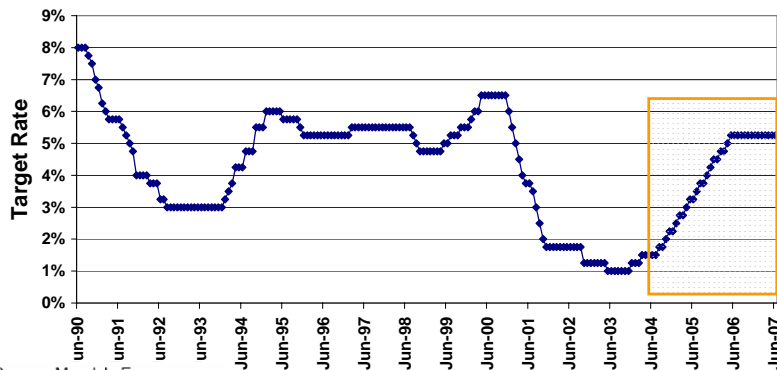
CPI: Percentage Change Year over Year



Source: Moody's Economy.com

- Large swings in energy prices in recent months have led to considerable volatility in headline inflation, amid a general moderation of the core rate of inflation. On a year-ago basis, headline CPI inflation declined to 2.7% in June 2007 from 4.3% in June 2006.
- The core index, which excludes food and energy prices, increased by 0.5% during Q2 2007. Over the past year, core CPI registered a 2.2% rate which was lower than previous months. While the headline reading came in 10 bps higher than the consensus had predicted, the core index was in line with expectations.

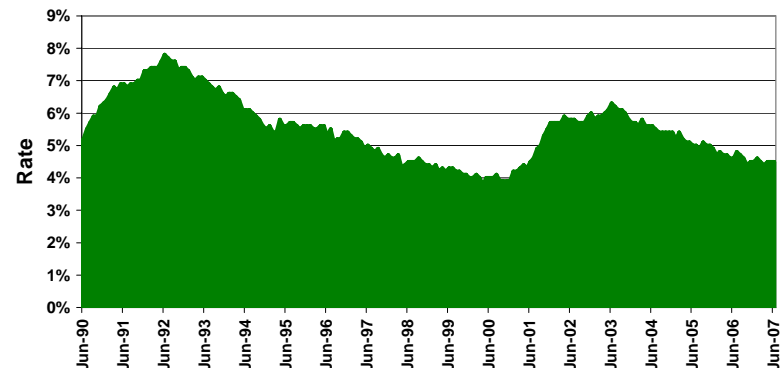
Fed Funds Target Rate



Source: Moody's Economy.com

- For the eighth straight meeting, the FOMC held the fed funds rate steady at 5.25%. The committee continues to view inflation as the predominant concern. While inflationary pressures have eased, the Committee is not expected to lower rates until inflation slows further and/or remains at a moderate pace.
- The committee had raised the fed funds rate 25 basis points at 17 consecutive meetings, with the policy rate increasing from 1% to 5.25% from June 2004 to June 2006.

Unemployment Rate

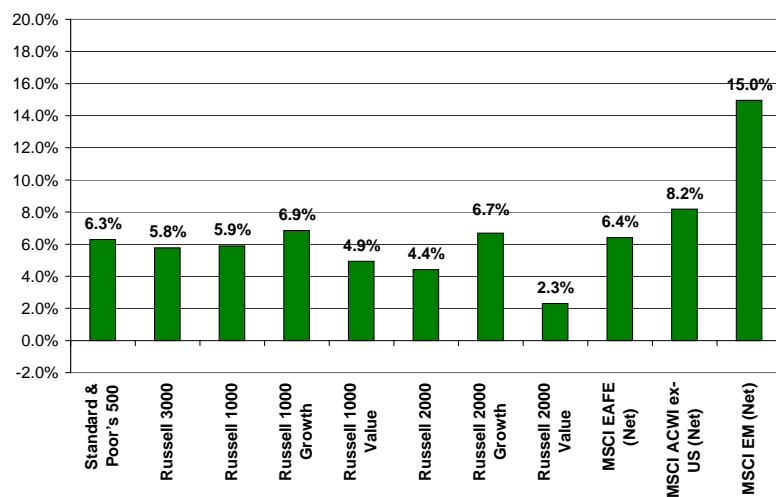


Source: Moody's Economy.com

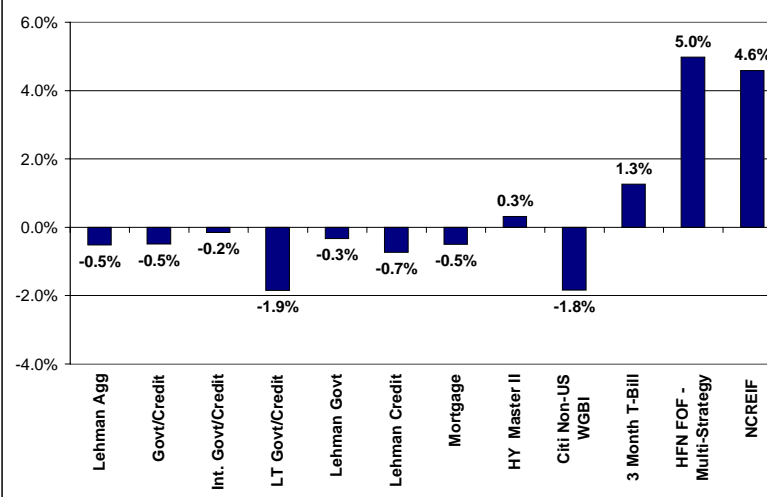
- The unemployment rate increased slightly to 4.5%. Average monthly gains during Q2 2007 were roughly 148,000, which is up from the revised 142,000 during Q1 2007.
- Job growth was weak in April due to housing and manufacturing inventory overhang, as well as rising energy costs and negative housing wealth effects. Losses in these areas were offset during the quarter by gains in education/healthcare, business/professional services, and leisure/hospitality.

Selected Equity and Fixed Income Index Rates of Return for Periods Ended June 30, 2007

Equity Index Returns: Quarter Ending 06/30/07



Fixed Income and Other Index Returns: Quarter Ending 06/30/07



Equity Indices

	Quarter	YTD	1-year	3-year	5-year	10-year
Standard & Poor's 500	6.3%	7.0	20.6	11.7	10.7	7.1
Russell 3000	5.8%	7.1	20.1	12.4	11.5	7.6
Russell 1000	5.9%	7.2	20.4	12.3	11.3	7.6
Russell 1000 Growth	6.9%	8.1	19.0	8.7	9.3	4.4
Russell 1000 Value	4.9%	6.2	21.9	15.9	13.3	9.9
Russell 2000	4.4%	6.5	16.4	13.5	13.9	9.1
Russell 2000 Growth	6.7%	9.3	16.8	11.8	13.1	5.3
Russell 2000 Value	2.3%	3.8	16.1	15.0	14.6	12.1
MSCI EAFE (Net)	6.4%	10.7	27.0	22.2	17.7	7.7
MSCI ACWI ex-US (Net)	8.2%	12.3	29.6	24.5	19.5	8.6*
MSCI EM (Net)	15.0%	17.6	45.0	38.2	30.3	9.4*

*For 10-year performance, Gross returns are provided.

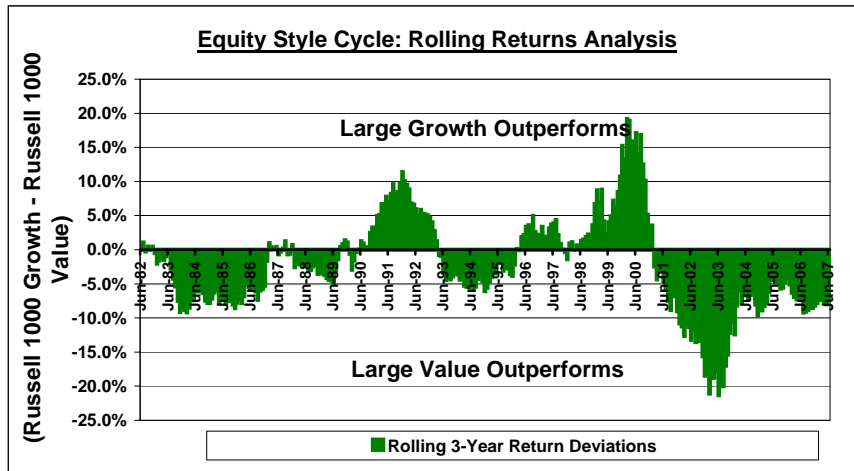
Fixed Income Indices

	Quarter	YTD	1-year	3-year	5-year	10-year
Lehman Aggregate	-0.5%	1.0	6.1	4.0	4.5	6.0
Lehman Govt/Credit	-0.5%	1.0	6.0	3.8	4.7	6.1
Lehman Int. Govt/Credit	-0.2%	1.4	5.8	3.4	4.2	5.7
Lehman Long Govt/Credit	-1.9%	-0.9	7.0	5.4	6.5	7.4
Lehman Govt	-0.3%	1.1	5.6	3.6	4.1	5.9
Lehman Credit	-0.7%	0.8	6.7	4.2	5.5	6.3
Lehman Mortgage	-0.5%	1.1	6.4	4.3	4.1	5.9
ML High Yield Master II	0.3%	3.1	11.8	9.0	11.8	6.3
Citigroup Non-US WGBI (Un)	-1.8%	-0.8	2.2	3.3	6.9	5.0
Citigroup 3 Month T-Bill	1.3%	2.5	5.1	3.7	2.7	3.7

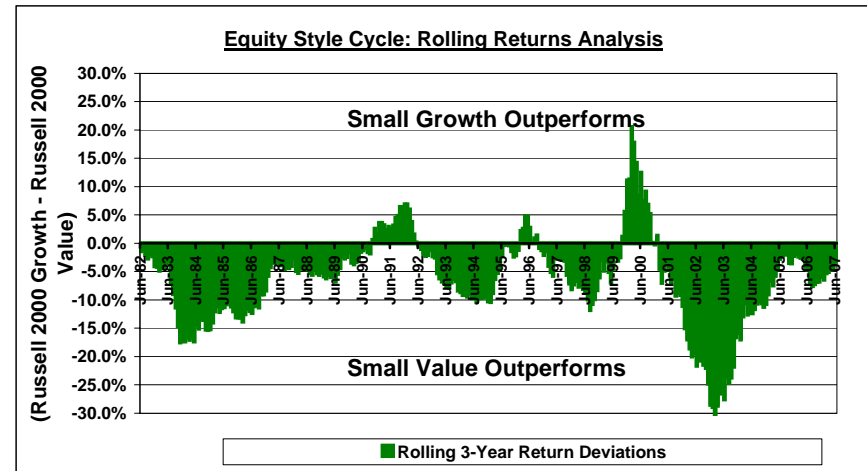
Other Indices

	Quarter	YTD	1-year	3-year	5-year	10-year
HFN HFOF Multi-Strat	5.0%	8.1	14.0	10.1	8.9	10.1
NCREIF Property Index	4.6%	8.4	17.2	18.0	14.4	13.1

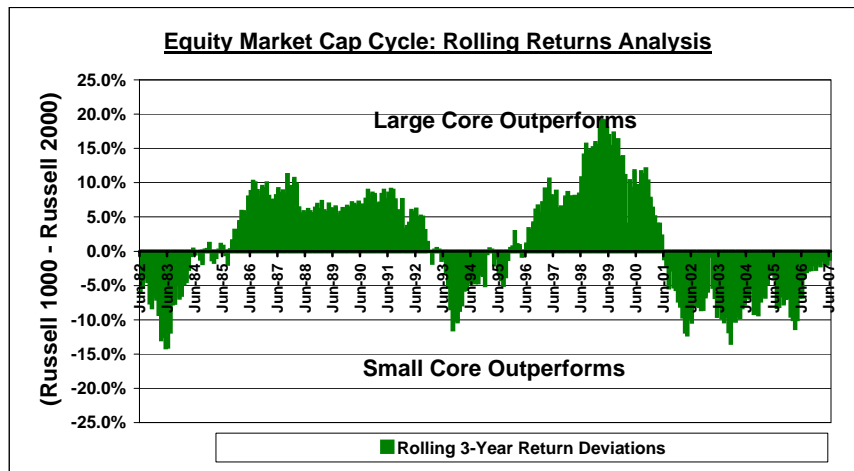
Equity Themes



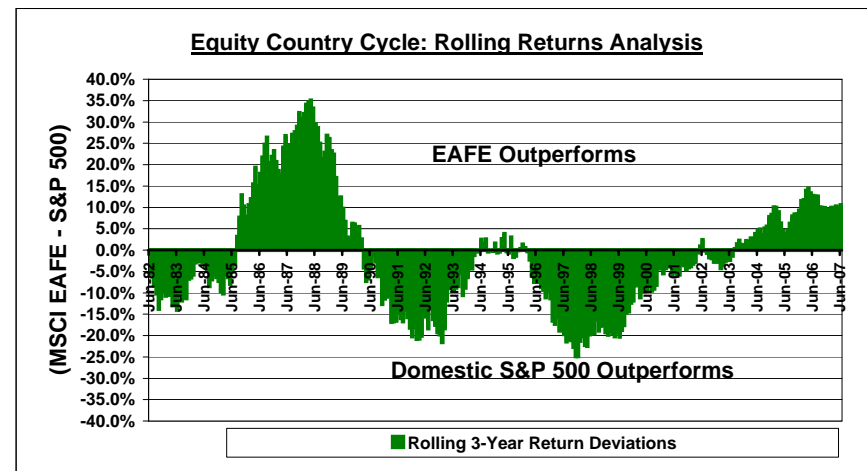
- Index Inception (i.e., January 1979): R1000V: **14.6%**; R1000G: **12.0%** (+259 bps)
- After 7 consecutive years of outperformance by the R1000V relative to the R1000G, the R1000G is currently ahead of the R1000V for the trailing quarter (+193 bps) and year-to-date (+189 bps) time periods.



- Index Inception (i.e., January 1979): R2000V: **15.8%**; R2000G: **10.5%** (+530 bps)
- The R2000V has outperformed the R2000G in 7 of last 10 calendar years, including 6 of the last 7; however, the R2000G has outperformed the R2000V during the year-to-date (+550 bps) and trailing 1-year (+75 bps) time periods.



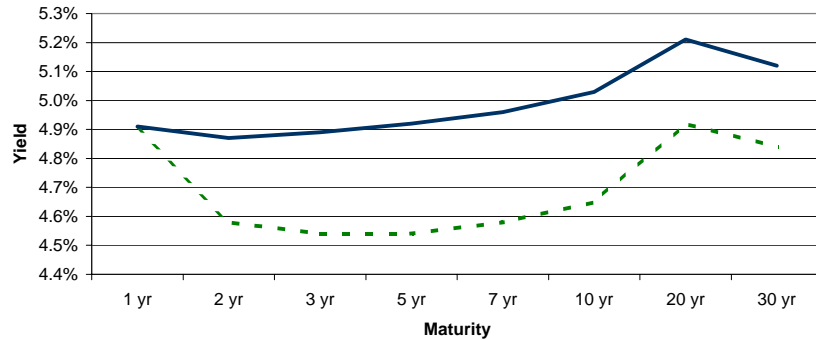
- Index Inception (i.e., January 1979): R1000: **13.5%**; R2000: **13.3%** (+16 bps)
- The R2000 has outperformed the R1000 in 7 of last 8 calendar years; however, the R1000 outperformed the R2000 for the year-to-date (+72 bps) and trailing 1-year (+399 bps) periods.



- Index Inception (i.e., January 1979): S&P 500: **13.5%**; EAFE: **11.6%** (+192 bps)
- The EAFE has outperformed the S&P 500 in 6 of last 10 calendar years, including the last 5 in a row and is ahead for the year-to-date (+378 bps) and trailing 1-year (+641 bps) time periods.

Fixed Income Themes

Treasury Yield Curve



Source: Moody's Economy.com

- As of 6/29/07, the yield curve was no longer inverted. The short to intermediate portion of the curve was upward sloping and long-term rates were currently above short-term rates.
- The rise in Treasury-bond yields was driven by the strong global economy, worry that China has lost its appetite for U.S. government debt, and a concern that rising food and energy prices could raise inflation expectations among consumers.

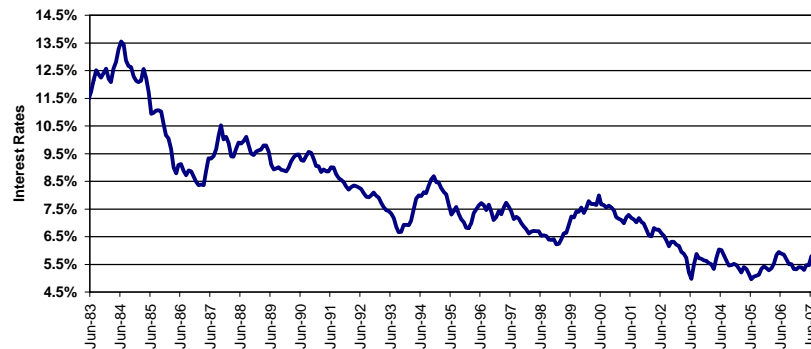
**Moody's Corporate-Treasury Bond Spread
Baa 10-Yr Constant Maturities**



Source: Moody's Economy.com

- Credit spreads continue to remain near 10-year lows, as the increase in corporate bond yields kept pace with the rise in Treasury yields.
- The widening of spreads in March was a brief crest that fell back in April, May and June.
- For the quarter, credit spreads narrowed by 11 basis points underscoring a continued appetite for risk, despite rising yields.

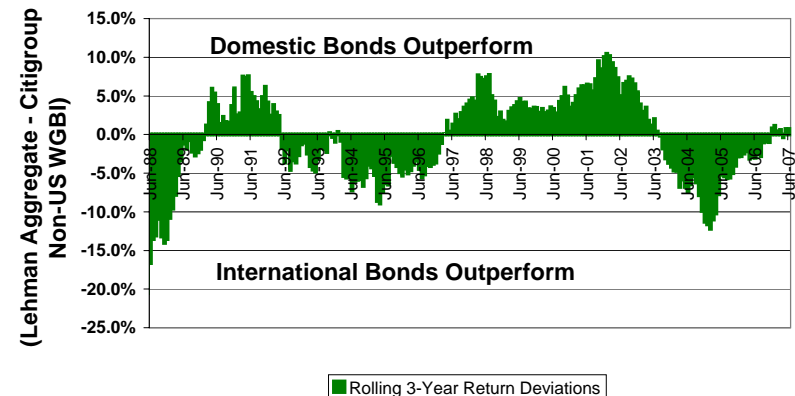
**Interest Rate Trends
Moody's AAA Seasoned**



Source: Moody's Economy.com

- The declining interest rate environment over the past two decades has fueled fixed income returns and has helped stimulate private equity, real estate, and hedge fund activity, as well as stock buybacks.
- Corporate bond yields ended the quarter +49 bps higher, at 5.79%.

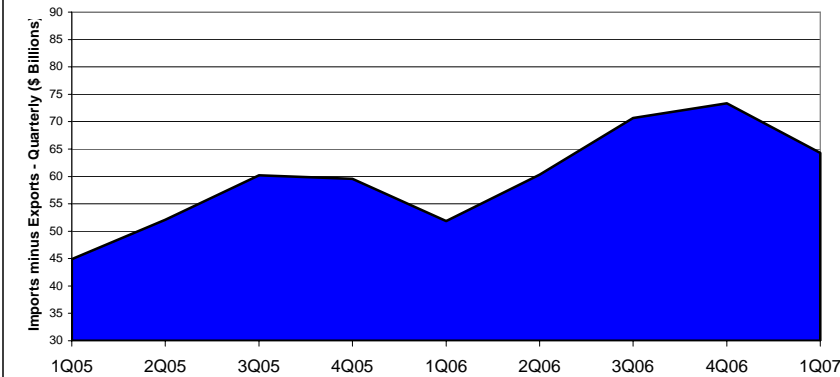
Fixed Income Cycle: Rolling Returns Analysis



- U.S. bonds continued their strong performance, outpacing international bonds for the 1-year (6.1% vs. 2.2%) and trailing 3-year (4.0% vs. 3.3%) periods. Domestic bonds have provided superior longer term returns relative to international bonds, as seen by the 10-year annualized rates of return (6.0% vs. 4.9%).

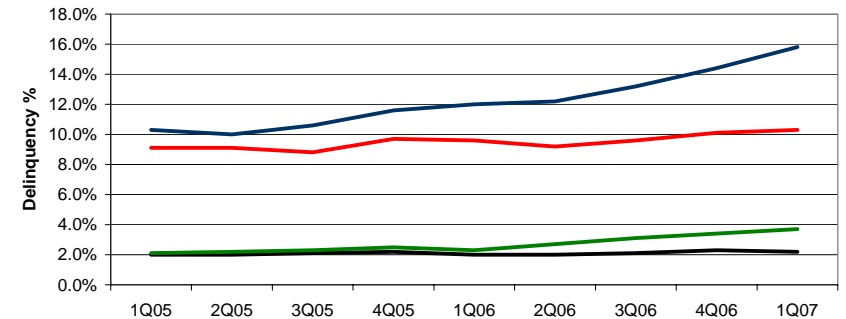
Themes of the Second Quarter

U.S. Trade Deficit with China



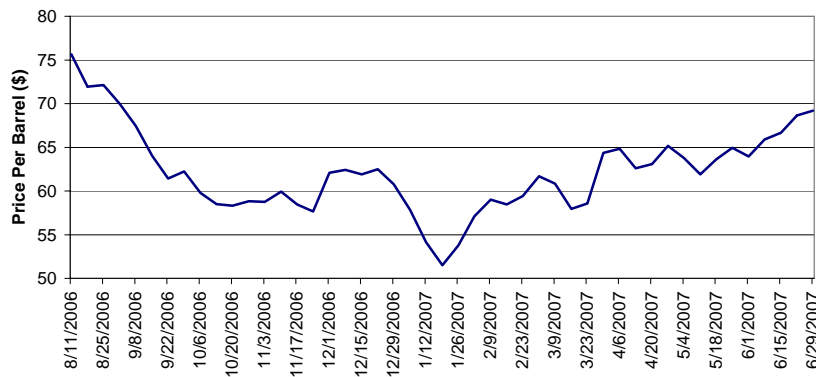
- A 6/12/07 Wall Street Journal article stated that China's trade surplus with its major trading partners expanded to \$22.5B in May, beating expectations and 73% greater than one year ago. China has continued to resist pressure to allow value of yuan to rise.
- A separate WSJ article on 5/22/07, stated that China's foreign exchange reserves have risen to approx. \$1.2T. It is estimated that 75% of that is in dollar denominated assets, including traditionally safe assets (\$407B in Treasury securities). China recently decided to expand into riskier assets (\$3B in private equity firm Blackstone Group).

MBA Total Delinquency Rates: All Mortgages



- The increased number of delinquencies during Q2 2007 led both S&P and Moody's to downgrade hundreds of bonds backed by these risky home loans. In addition, turmoil in the subprime market essentially collapsed two hedge funds run by Bear Stearns.
- A decrease in new homes sales combined with an increase in the inventory of existing homes caused pressure to build in the U.S. housing market during Q2 2007. Conversely, in the office sector, rents on office properties jumped an average of 3.1% during Q2 2007, the sharpest quarterly increase since Q3 2000.

Oil Prices: 8/2006 - 6/2007



- Oil prices have been steadily rising since January 2007 but still trade below their peak reached in August 2006.
- Gas prices and oil prices tend to move in tandem. They have followed a similar pattern over the past year with gas prices starting at \$3.04 in August 2006, hitting a low of \$2.16 on Jan 26, 2007, and crawling up to \$2.97 at the end of the 2Q 2007.

Top 10 Largest LBOs in History (as of 6/30/07)

<u>Company</u>	<u>Equity Value</u>	<u>Date Announced</u>
1. BCE, Inc.	\$51.0B	6/30/07
2. TXU	\$31.8B	2/26/07
3. First Data	\$26.4B	4/2/07
4. Alltel Corp.	\$25.7B	5/21/07
5. SLM Corp.	\$25.6B	4/16/07
6. RJR Nabisco	\$25.1B	10/25/88
7. Equity Office Properties Trust	\$22.9B	11/20/06
8. HCA	\$21.0B	7/24/06
9. Clear Channel Communications	\$19.4B	11/16/06
10. Alliance Boots	\$18.4B	3/30/07

Source: WSJ, Standard & Poor's Leveraged Commentary & Data

- While RJR Nabisco held the record for the largest buyout ever for almost 20 years, five LBOs have surpassed this record in 2007 alone.
- However, the margin for error is shrinking as interest coverage ratios (cash flow divided by interest expense) have declined to 1.7x (from 2.4x in 2005 and 3.4x in 2004), a 10-year low. In addition, several bond offerings have either been delayed or cancelled as investors balk at deal terms and attitudes towards risk change.

FUND DESCRIPTIONS

Fund	Objective	Description
Principal Guaranteed Interest Account	To seek stability of principal.	The Fund gives a guaranteed interest rate for a specific period of time as determined or allowed by the plan. The rate is set at the start of the plan's 12-month deposit year. Each deposit made into the account during the deposit year gets the rate. A new rate is set at the start of each deposit year.
Principal Money Market Account	To seek a high level of current income consistent with preservation of principal and maintenance of liquidity.	The Fund invests in a portfolio of high quality, short-term money market instruments. The investments are U.S. dollar dominated securities, which the sub-advisor believes present minimal credit risks. The sub-advisor maintains a dollar weighted average portfolio maturity of 90 days or less.
Principal Bond & Mortgage Account	To seek current income.	The Fund invests primarily in intermediate-term, fixed-income investments such as public and private corporate bonds, commercial and residential mortgages, asset-backed securities, and U.S. government and agency-backed securities. Value is added primarily through sector allocation and security selection.
Principal Stock Emphasis Balanced Account	To seek current income and growth of capital.	The Fund primarily invests in other separate accounts offered by The Principal. It usually maintains at least 50% of assets in common stocks.
Vanguard Windsor II Fund Inv	To seek long-term growth of capital; current income is a secondary consideration.	The Fund invests primarily in undervalued stocks of medium and large companies, characterized by above-average dividend yields and below-average price/earnings ratios relative to the stock market. It may also invest up to 20% of assets in foreign securities.

FUND DESCRIPTIONS

Fund	Objective	Description
Principal Large Cap Stock Index Account	To seek returns in line with the S&P 500 Index.	The Fund normally invests the majority of assets in common stocks of companies that compose the S&P 500 Index. Over the long-term, management seeks a very close correlation between the performance of the Separate Account before expenses and that of the S&P 500 Index.
Principal Large Company Growth Account	To seek long-term growth of capital.	The Fund primarily invests in common stocks of large capitalization companies with strong earnings growth potential. It normally invests the majority of assets in companies with large market capitalizations at the time of purchase. It may invest up to 25% of assets in foreign securities.
Principal Mid Cap Stock Fund (Edge)	To seek long-term capital appreciation.	The Fund invests at least 80% of net assets (plus any borrowings for investment purposes) in common stocks of companies with medium market capitalizations, which is similar to companies in the S&P Mid Cap 400 Index. The Fund may invest up to 20% of assets in REIT securities. It may invest in fixed income securities of any maturity, including mortgage-backed securities, and may invest up to 20% of assets in U.S. government securities and collateralized mortgage obligations. The Fund may invest up to 25% of assets in securities of foreign issuers.
Principal Small Company Value Account	To seek long-term growth of capital.	The Fund invests primarily in common stocks of small capitalization companies. It normally invests the majority of assets in companies with market capitalizations similar to those companies in the Russell 2000 Value Index. It may invest up to 25% of assets in foreign securities.

FUND DESCRIPTIONS

Fund	Objective	Description
Vanguard Explorer Fund	To seek long-term capital appreciation.	The Fund invests mainly in the stocks of small companies. These companies tend to be unseasoned but are considered by the Fund's advisors to have superior growth potential. These companies often provide little or no dividend income.
Principal Diversified International Account	To seek long-term growth of capital.	The Fund normally invests the majority of assets in companies in at least three different countries. It invests in securities of companies with their principal place of business or principal office outside of the U.S.; companies for which the principal securities trade on a foreign exchange; and companies, regardless of where their securities are traded, that derive 50% or more of their total revenue from goods or services produced or sold outside of the U.S. It may invest securities of companies with small to medium market capitalizations.
Principal LifeTime Strategic Income	The investment seeks current income.	The Fund primarily invests in shares of other Principal Investors funds. The underlying funds are intended to give the fund moderate exposure to the domestic and foreign equity and fixed income markets.
Principal LifeTime 2010 Separate Acct.	To seek long-term growth of capital and current income.	The Fund primarily invests in shares of other Principal Investors funds. The underlying funds are intended to give the fund broad exposure to the domestic and foreign equity and fixed income markets. Assets are allocated so that within approximately ten to fifteen years after the year 2020 the Fund's assets match the asset allocation of the Principal LifeTime Strategic Income Fund.

FUND DESCRIPTIONS

Fund	Objective	Description
Principal LifeTime 2020 Separate Acct.	To seek long-term growth of capital and current income.	The Fund primarily invests in shares of other Principal Investors funds. The underlying funds are intended to give the fund broad exposure to the domestic and foreign equity and fixed income markets. Assets are allocated so that within approximately ten to fifteen years after the year 2020 the Fund's assets match the asset allocation of the Principal LifeTime Strategic Income Fund.
Principal LifeTime 2030 Separate Acct.	To seek long-term growth of capital and current income.	The Fund primarily invests in shares of other Principal Investors funds. The underlying funds are intended to give the fund broad exposure to the domestic and foreign equity and fixed income markets. Assets are allocated so that within approximately ten to fifteen years after the year 2030 the Fund's assets match the asset allocation of the Principal LifeTime Strategic Income Fund.
Principal LifeTime 2040 Separate Acct.	To seek long-term growth of capital and current income.	The Fund primarily invests in shares of other Principal Investors funds. The underlying funds are intended to give the fund broad exposure to the domestic and foreign equity and fixed income markets. Assets are allocated so that within approximately ten to fifteen years after the year 2040 the Fund's assets match the asset allocation of the Principal LifeTime Strategic Income Fund.
Principal LifeTime 2050 Separate Acct.	To seek long-term growth of capital and current income.	The Fund primarily invests in shares of other Principal Investors funds. The underlying funds are intended to give the fund broad exposure to the domestic and foreign equity and fixed income markets. Assets are allocated so that within approximately ten to fifteen years after the year 2050 the Fund's assets match the asset allocation of the Principal LifeTime Strategic Income Fund.

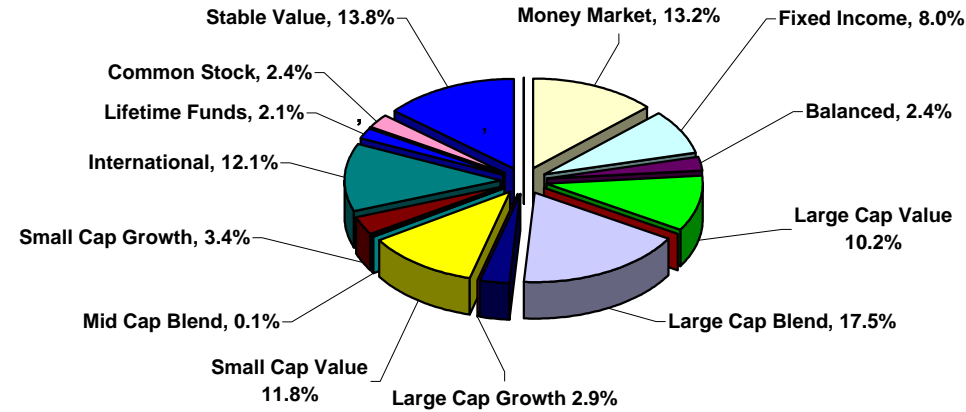
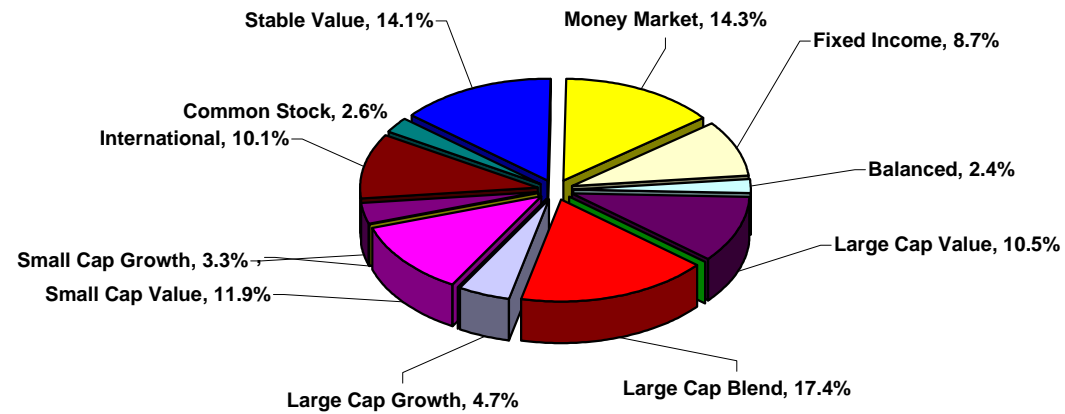
PLAN ACTIVITY
April 1, 2007 through June 30, 2007

Funds	Beginning Balance April 1, 2007	Contributions	Withdrawals/ Distributions	Net Transfers	Fees	Investment Gains/Losses	Ending Balance June 30, 2007
Principal 2 Year Guaranteed Interest Account*	\$638,080	\$12,019	(\$1,267)	(\$4,300)	(\$481)	\$5,429	\$649,479
Principal 7 Year Guaranteed Interest Account*	\$1,417,508	\$23,597	(\$3,092)	(\$3,738)	(\$492)	\$12,952	\$1,446,735
Principal Money Market Account	\$2,075,014	\$85,861	(\$63,091)	(\$104,125)	(\$1,301)	\$24,144	\$2,016,501
Principal Bond & Mortgage Account	\$1,267,330	\$35,578	(\$19,980)	(\$48,421)	(\$948)	(\$10,372)	\$1,223,187
Principal Stock Emphasis Balanced Account	\$348,771	\$8,562	(\$19,925)	\$6,011	(\$114)	\$16,023	\$359,328
Vanguard Windsor II Fund Inv	\$1,196,898	\$36,059	(\$3,087)	\$223,803	(\$916)	\$101,027	\$1,553,784
Principal Large Company Value Account	\$327,734	\$5,607	(\$18,388)	(\$328,103)	\$0	\$13,149	(\$0)
Principal Large Cap Stock Index Account	\$2,529,800	\$44,408	(\$12,616)	(\$48,488)	(\$1,226)	\$156,609	\$2,668,488
Principal Large Company Growth Account	\$309,459	\$12,060	(\$40,496)	\$137,695	(\$185)	\$28,028	\$446,561
Principal Large Cap Growth I Account	\$373,077	\$1,486	(\$382,502)	\$0	\$0	\$7,939	(\$0)
American Century Small Cap Value Fund Inv	\$996,404	\$6,282	\$0	(\$1,028,667)	\$0	\$25,981	(\$0)
Principal Mid Cap Stock Fund (Edge)	\$0	\$715	\$0	\$12,817	\$0	\$12	\$13,544
Principal Small Company Value Account	\$732,666	\$19,360	(\$146)	\$1,016,713	(\$850)	\$36,340	\$1,804,083
Vanguard Explorer Fund	\$478,091	\$15,334	(\$146)	(\$9,882)	(\$136)	\$31,629	\$514,890
Principal Diversified International Account	\$1,465,997	\$36,198	(\$57,266)	\$251,951	(\$915)	\$152,439	\$1,848,403
Principal Lifetime Strategic Income	\$0	\$36	\$0	\$8,005	\$0	(\$84)	\$7,957
Principal Lifetime 2010	\$0	\$3,130	\$0	\$56,400	\$0	(\$174)	\$59,356
Principal Lifetime 2020	\$0	\$5,029	\$0	\$151,228	\$0	\$877	\$157,133
Principal Lifetime 2030	\$0	\$2,665	\$0	\$76,591	\$0	\$880	\$80,136
Principal Lifetime 2040	\$0	\$1,529	\$0	\$17,825	\$0	\$152	\$19,506
Principal Lifetime 2050	\$0	\$395	\$0	\$0	\$0	(\$1)	\$394
Principal Common Stock Account	\$383,100	\$0	(\$550)	(\$811)	(\$38)	(\$10,438)	\$371,263
Total	\$14,539,929	\$355,908	(\$622,552)	\$382,502	(\$7,600)	\$592,542	\$15,240,728

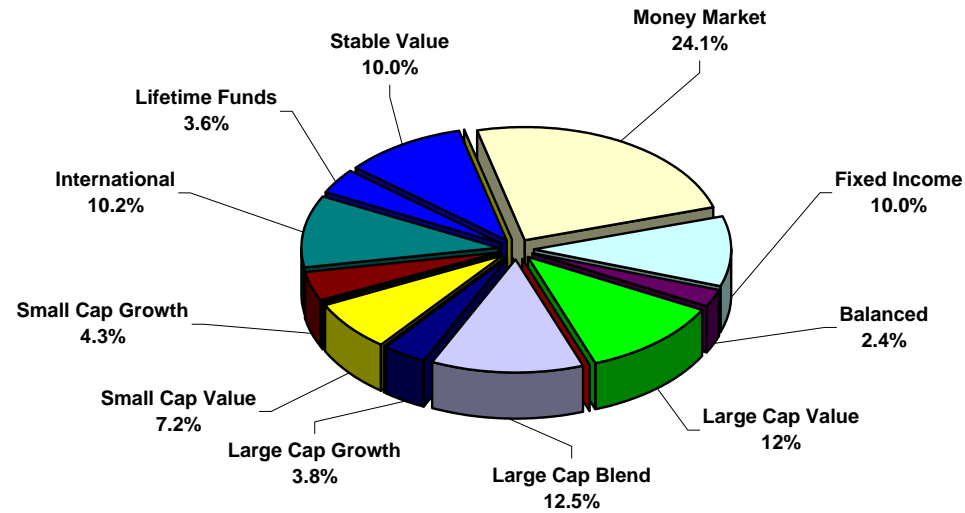
* Contributions include matured accounts reinvested

Asset Allocation Summary
As of June 30, 2007

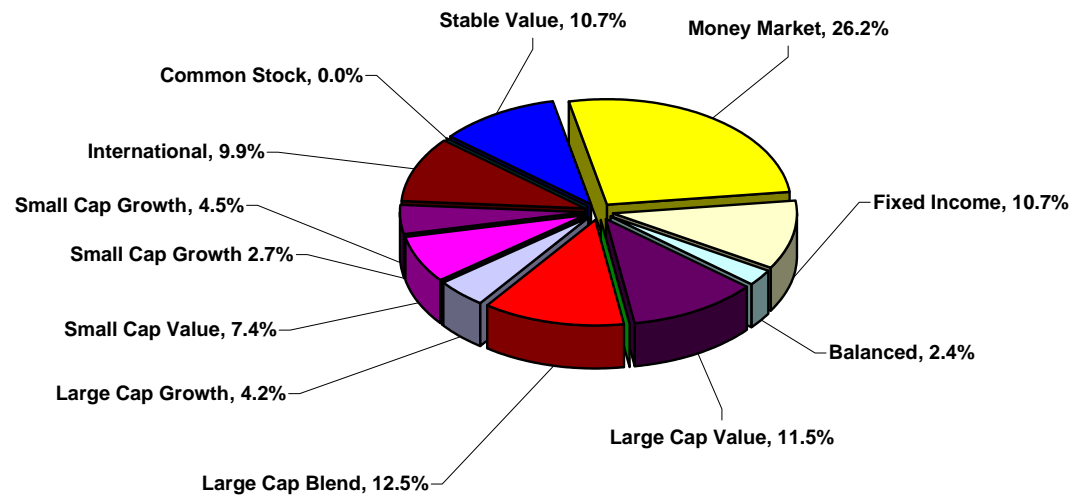
	Plan Assets	% of Total
Principal 2 Year Guaranteed Interest Account*	\$649,479	4.3%
Principal 7 Year Guaranteed Interest Account*	\$1,446,735	9.5%
Principal Money Market Account	\$2,016,501	13.2%
Principal Bond & Mortgage Account	\$1,223,187	8.0%
Principal Stock Emphasis Balanced Account	\$359,328	2.4%
Vanguard Windsor II Fund Inv	\$1,553,784	10.2%
Principal Large Cap Stock Index Account	\$2,668,488	17.5%
Principal Large Company Growth Account	\$446,561	2.9%
Principal Mid Cap Stock Fund (Edge)	\$13,544	0.1%
Principal Small Company Value Account	\$1,804,083	11.8%
Vanguard Explorer Fund	\$514,890	3.4%
Principal Diversified International Account	\$1,848,403	12.1%
Principal Lifetime Strategic Income	\$7,957	0.1%
Principal Lifetime 2010	\$59,356	0.4%
Principal Lifetime 2020	\$157,133	1.0%
Principal Lifetime 2030	\$80,136	0.5%
Principal Lifetime 2040	\$19,506	0.1%
Principal Lifetime 2050	\$394	0.0%
Principal Common Stock Account	\$371,263	2.4%
Total Assets	\$15,240,729	100.0%

2Q 2007 Asset Allocation**1Q 2007 Asset Allocation**

2Q 2007 Contribution Allocation



1Q 2007 Contribution Allocation



Performance Summary For Periods Ended June 30, 2007

Funds	Quarter	YTD	1 Year	3 Years	5 Years
<i>Principal 2-Year Guaranteed Interest Account</i>	0.98	1.83	3.61	2.99	2.10
<i>Principal 7-Year Guaranteed Interest Account</i>	1.08	1.96	3.93	3.60	3.38
<i>Principal Money Market Account</i>	1.20	2.41	4.87	3.43	2.39
3 Month U.S. Treasury Bill	1.18	2.45	5.00	3.86	2.75
<i>Principal Bond & Mortgage Account</i>	-0.85	0.72	6.10	4.08	4.72
Lehman Brothers Aggregate Bond Index	-0.52	0.97	6.11	3.98	4.48
Median of the Core Fixed Income Fund Universe	-0.64	0.86	5.78	3.80	4.41
<i>Principal Stock Emphasis Balanced Account</i>	4.57	6.43	16.65	13.39	11.46
Policy Index*	3.95	5.71	16.57	11.06	10.30
Median of the Balanced Fund Universe	3.99	5.62	15.23	9.61	8.96
<i>Vanguard Windsor II Fund Inv</i>	7.70	9.50	24.18	15.33	13.30
Russell 1000 Value Index	4.93	6.23	21.86	15.93	13.31
Median of the Large Cap Value Fund Universe	6.15	7.32	21.35	13.74	11.80
<i>Principal Large Cap Stock Index Account</i>	6.21	6.80	20.23	11.34	10.33
S&P 500 Index	6.28	6.96	20.59	11.67	10.71
Median of the Large Cap Blend Fund Universe	6.23	6.86	19.98	11.37	10.30
<i>Principal Large Company Growth Account</i>	7.37	8.56	17.67	11.91	10.01
Russell 1000 Growth Index	6.86	8.13	19.04	8.71	9.28
Median of the Large Cap Growth Fund Universe	6.82	8.04	16.83	8.88	8.52
<i>Principal Mid Cap Stock Fund</i>	4.66	8.61	19.81	-	-
S&P Mid Cap 400 Index	5.84	11.98	18.51	-	-
Median of the Mid Cap Blend Fund Universe	5.85	11.54	18.50	-	-
<i>Principal Small Company Value Account</i>	3.03	2.92	11.70	14.87	15.82
Russell 2000 Value Index	2.30	3.80	16.05	15.01	14.62
Median of the Small Cap Value Fund Universe	4.24	6.97	16.74	14.54	14.41
<i>Vanguard Explorer Fund</i>	6.69	10.69	16.71	12.87	13.53
Russell 2000 Growth Index	6.69	9.33	16.83	11.76	13.08
Median of the Small Cap Growth Fund Universe	7.34	10.63	15.64	12.24	12.38
<i>Principal Diversified International Stock Account</i>	8.88	12.74	29.03	28.18	20.18
MSCI Net EAFE	6.40	10.74	27.00	22.24	17.73
Median of the Foreign Equity Fund Universe	6.93	10.82	26.97	22.12	17.28
<i>Principal Lifetime Strategic Income</i>	0.13	1.54	8.45	7.62	7.82
Policy Index*	1.08	2.72	9.87	6.66	6.73
<i>Principal Lifetime 2010</i>	2.21	3.89	13.12	10.10	9.74
Policy Index*	3.15	5.01	14.92	10.24	9.59

Performance Summary For Periods Ended June 30, 2007

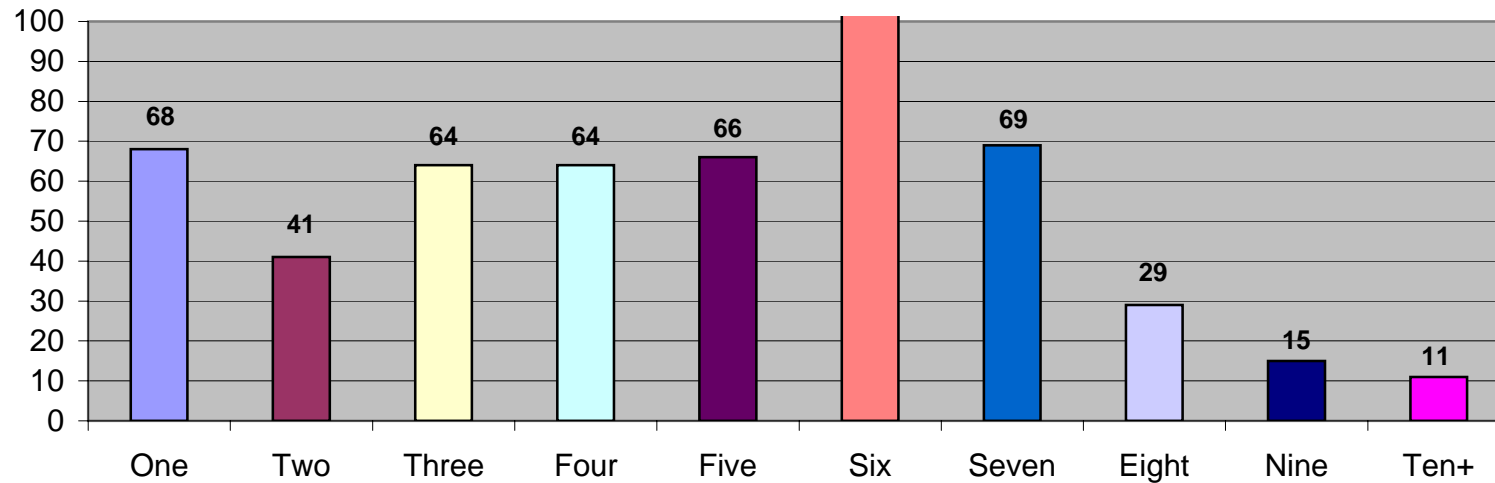
Funds	Quarter	YTD	1 Year	3 Years	5 Years
<i>Principal Lifetime 2020</i>	3.41	5.34	16.27	12.20	11.00
Policy Index*	4.03	6.00	17.13	11.80	10.79
<i>Principal Lifetime 2030</i>	4.38	6.26	17.89	13.21	11.52
Policy Index*	4.64	6.69	18.68	12.89	11.61
<i>Principal Lifetime 2040</i>	4.99	6.99	18.98	13.66	11.65
Policy Index*	5.07	7.18	19.80	13.68	12.19
<i>Principal Lifetime 2050</i>	5.21	7.13	19.32	14.07	11.77
Policy Index*	5.30	7.44	20.38	14.08	12.49

*The Principal Stock Emphasis Balanced Account Policy Index consists of 58% Russell 3000 Index/12% MSCI EAFE Net Index/30% Lehman Aggregate Bond Index.

Principal Participant Information

	Number of Participants per Fund
Principal 2 Year Guaranteed Interest Account*	116
Principal 7 Year Guaranteed Interest Account*	202
Principal Money Market Account	307
Principal Bond & Mortgage Account	301
Principal Stock Emphasis Balanced Account	87
Vanguard Windsor II Fund Inv	304
Principal Large Cap Stock Index Account	371
Principal Large Company Growth Account	202
Principal Mid Cap Stock Fund (Edge)	7
Principal Small Company Value Account	238
Vanguard Explorer Fund	172
Principal Diversified International Account	305
Principal Lifetime Strategic Income	2
Principal Lifetime 2010	5
Principal Lifetime 2020	13
Principal Lifetime 2030	7
Principal Lifetime 2040	5
Principal Lifetime 2050	1
Principal Common Stock Account	224

Principal Investment Diversification as of June 30, 2007



Number of Funds	Number of Participants	Percent
One	68	11.7%
Two	41	7.1%
Three	64	11.0%
Four	64	11.0%
Five	66	11.4%
Six	153	26.4%
Seven	69	11.9%
Eight	29	5.0%
Nine	15	2.6%
Ten+	11	1.9%
	580	100%
Average number of funds being used in the Plan:		4.8
Average Account Balance		\$26,825
Total Participants in Plan		580

Principal Participant Information

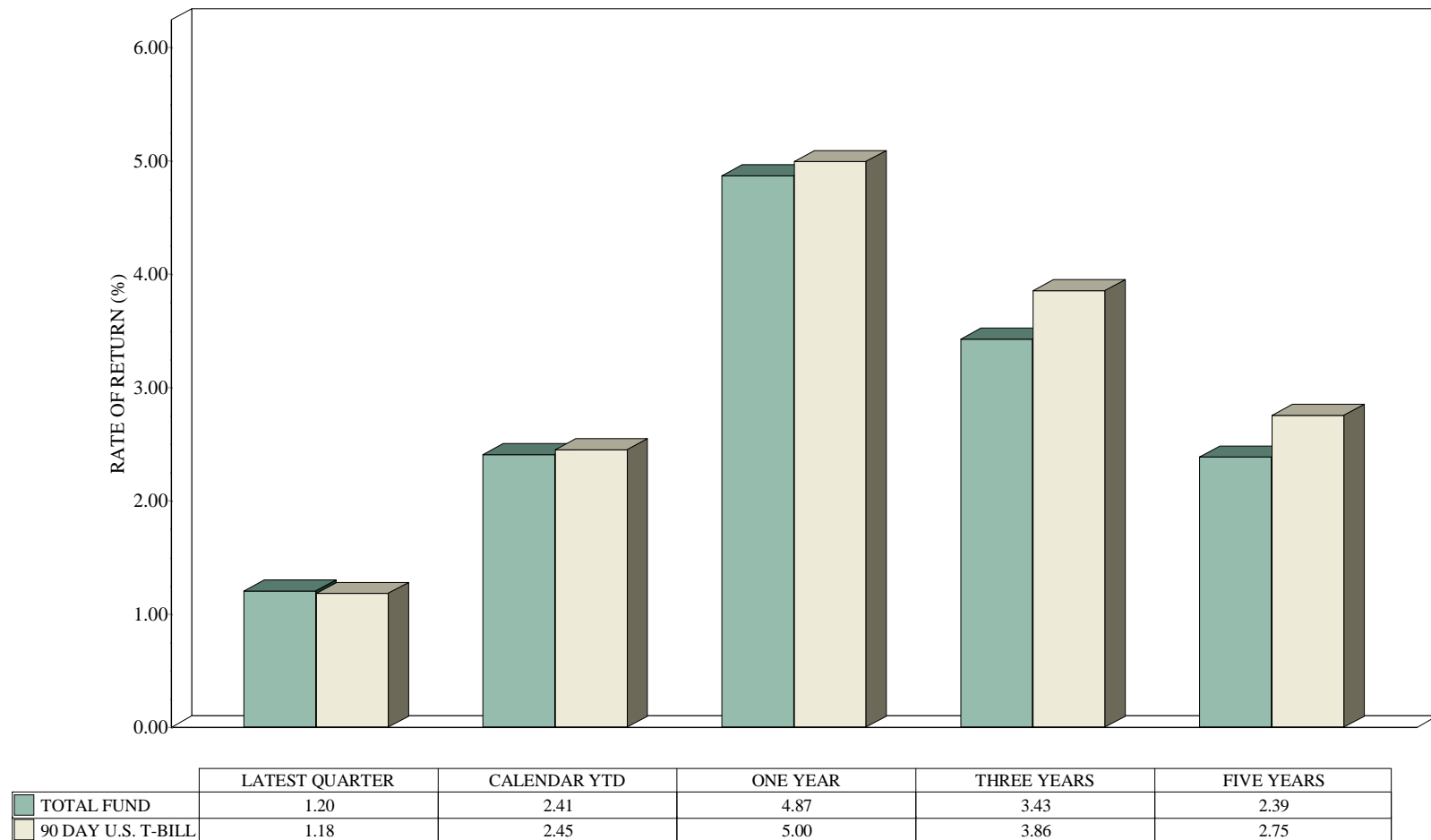
	Number of "One Funders"*
Principal 2 Year Guaranteed Interest Account*	4
Principal 7 Year Guaranteed Interest Account*	2
Principal Money Market Account	49
Principal Bond & Mortgage Account	0
Principal Stock Emphasis Balanced Account	0
Vanguard Windsor II Fund Inv	1
Principal Large Cap Stock Index Account	0
Principal Large Company Growth Account	0
Principal Mid Cap Stock Fund (Edge)	0
Principal Small Company Value Account	0
Vanguard Explorer Fund	1
Principal Diversified International Account	1
Principal Lifetime Strategic Income	1
Principal Lifetime 2010	0
Principal Lifetime 2020	4
Principal Lifetime 2030	3
Principal Lifetime 2040	1
Principal Lifetime 2050	1
Principal Common Stock Account	0
Total	68

* "One Funders" represent the number of participants directing 100% of future contributions to just one fund.

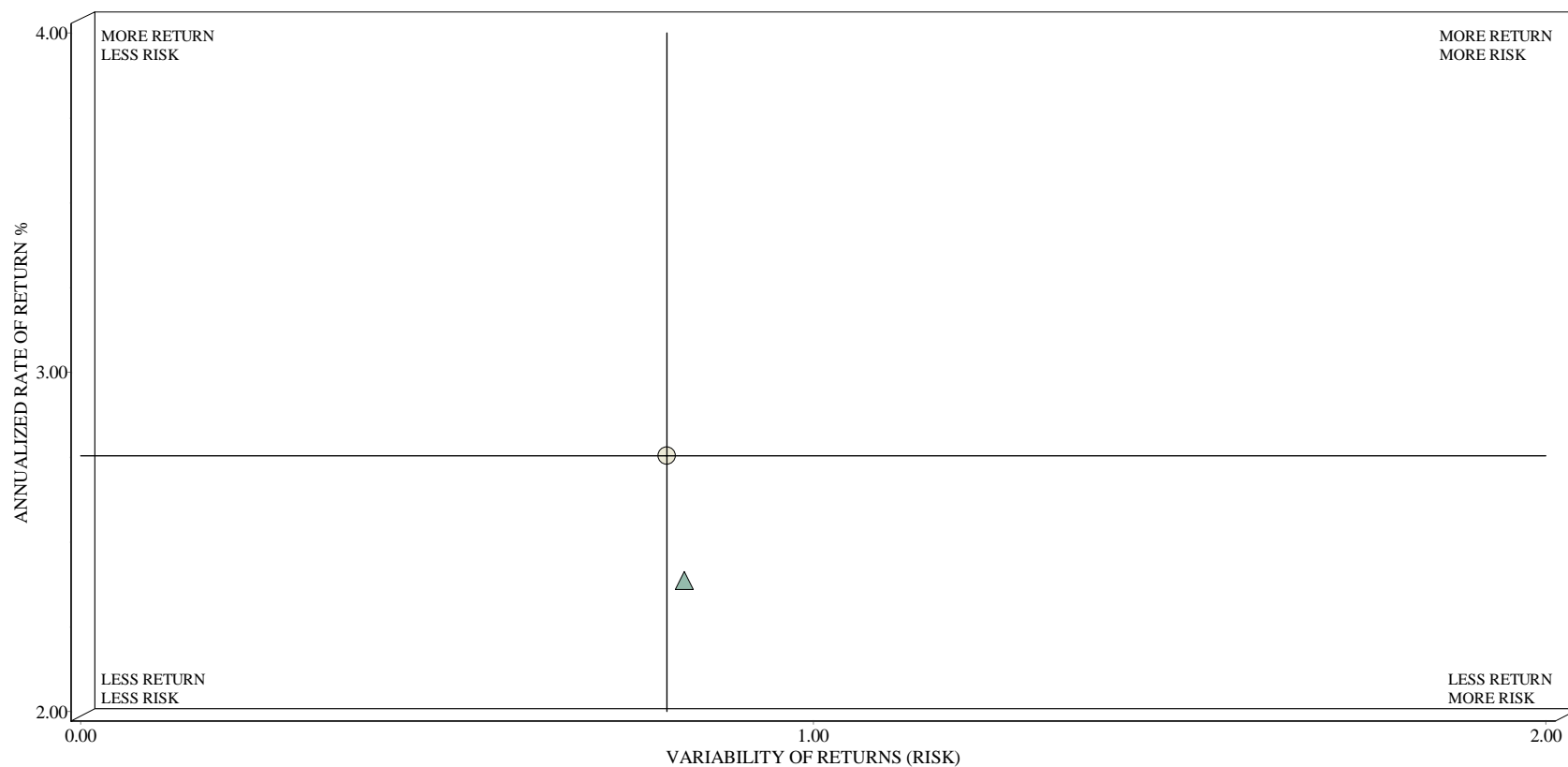
COMMENTS AND CONCLUSIONS

- The **Principal Bond and Mortgage Account** underperformed the Lehman Aggregate Bond Index (-0.9% vs. -0.5%) for the three month period ended June 30, 2007. This result placed the Fund in the bottom quartile of the core fixed income mutual fund universe. Above Index duration, combined with an overweight within the commercial mortgage-backed securities (CMBS) sector, and an underweight to U.S. agencies and U.S. Treasuries detracted from performance for the second quarter of 2007. The Fund continued to lag the comparative Index for the year-to-date period (0.7% vs. 1.0%) and placed below the median of the comparative universe. The Fund match the benchmark for the one year period (6.1%) and placed above the median of its peer universe. Conversely, the Fund outperformed the Lehman Aggregate Bond Index for the three and five year periods, posting returns of 4.1% and 4.7%, respectively. These results placed the Fund above the median of the core fixed income mutual fund universe.
- The **Principal MidCap Stock Fund** (4.7%) underperformed the S&P Mid Cap 400 Index (5.8%) for the second quarter of 2007. This result ranked in the bottom percentile of the mid cap blend mutual fund universe. Poor stock selection within the Fund's industrials and utilities holdings hurt performance for the three month period ended June 30, 2007. The Fund continued to lag the benchmark for the year-to-date period (8.6% vs. 12.0%) and ranked in the bottom percentile of the comparative universe. Conversely, the Fund outperformed the comparative Index (19.8% vs. 18.5%) for the one year period and placed above the median of its peer universe.

**PRINCIPAL MONEY MARKET
TIME-WEIGHTED RETURNS**

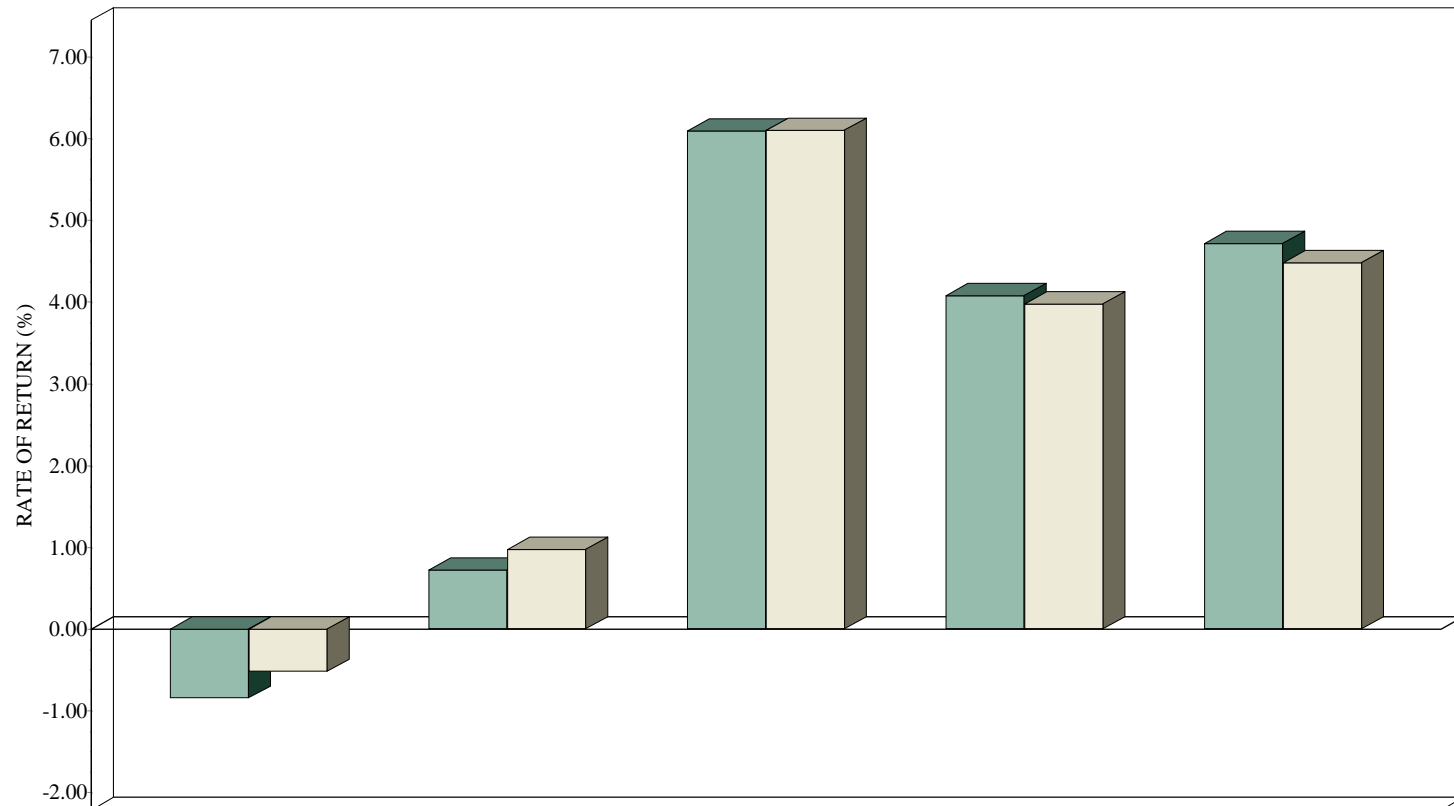


PRINCIPAL MONEY MARKET
CAPITAL MARKET LINE - 5 YEARS



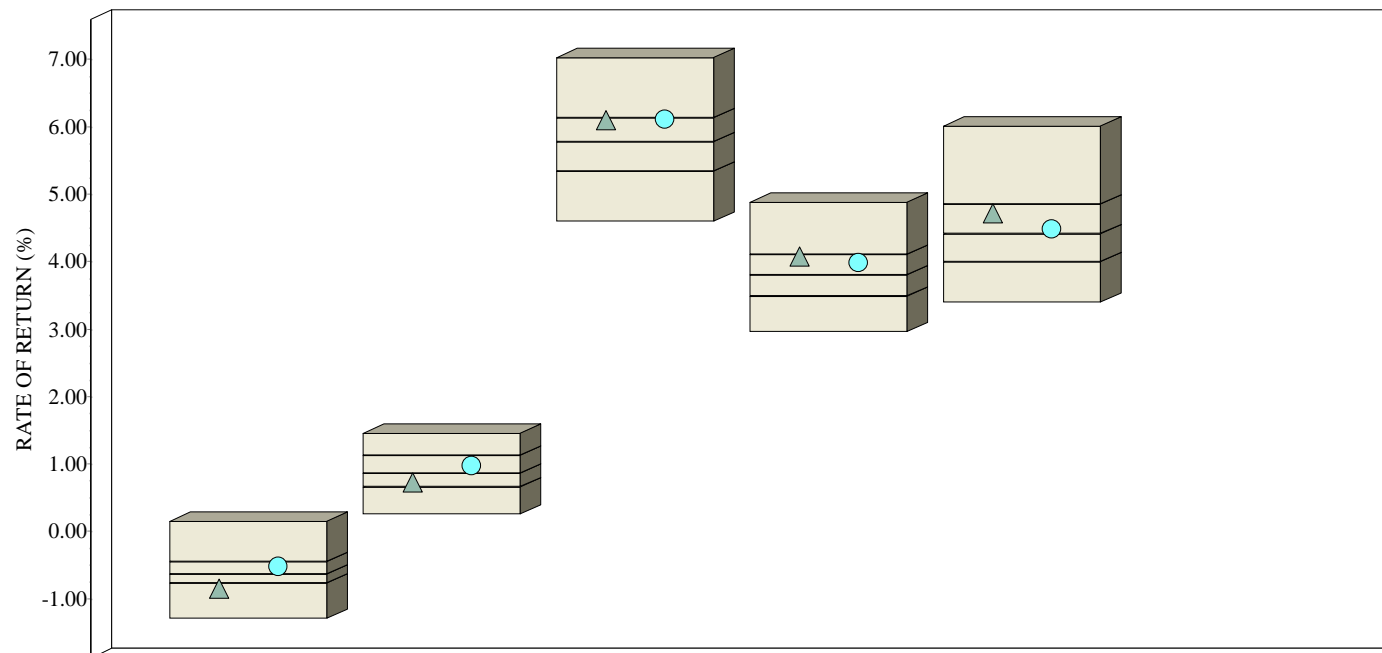
	RETURN	STD DEV	BETA	ALPHA	R-SQUARED
▲ TOTAL FUND	2.39	0.82	N/A	N/A	N/A
○ 90 DAY U.S. T-BILL	2.75	0.80	1.00	0.00	100.00

**PRINCIPAL BOND AND MORTGAGE
TIME-WEIGHTED RETURNS**



	LATEST QUARTER	CALENDAR YTD	ONE YEAR	THREE YEARS	FIVE YEARS
TOTAL FUND	-0.85	0.72	6.10	4.08	4.72
LB AGGREGATE BOND	-0.52	0.97	6.11	3.98	4.48

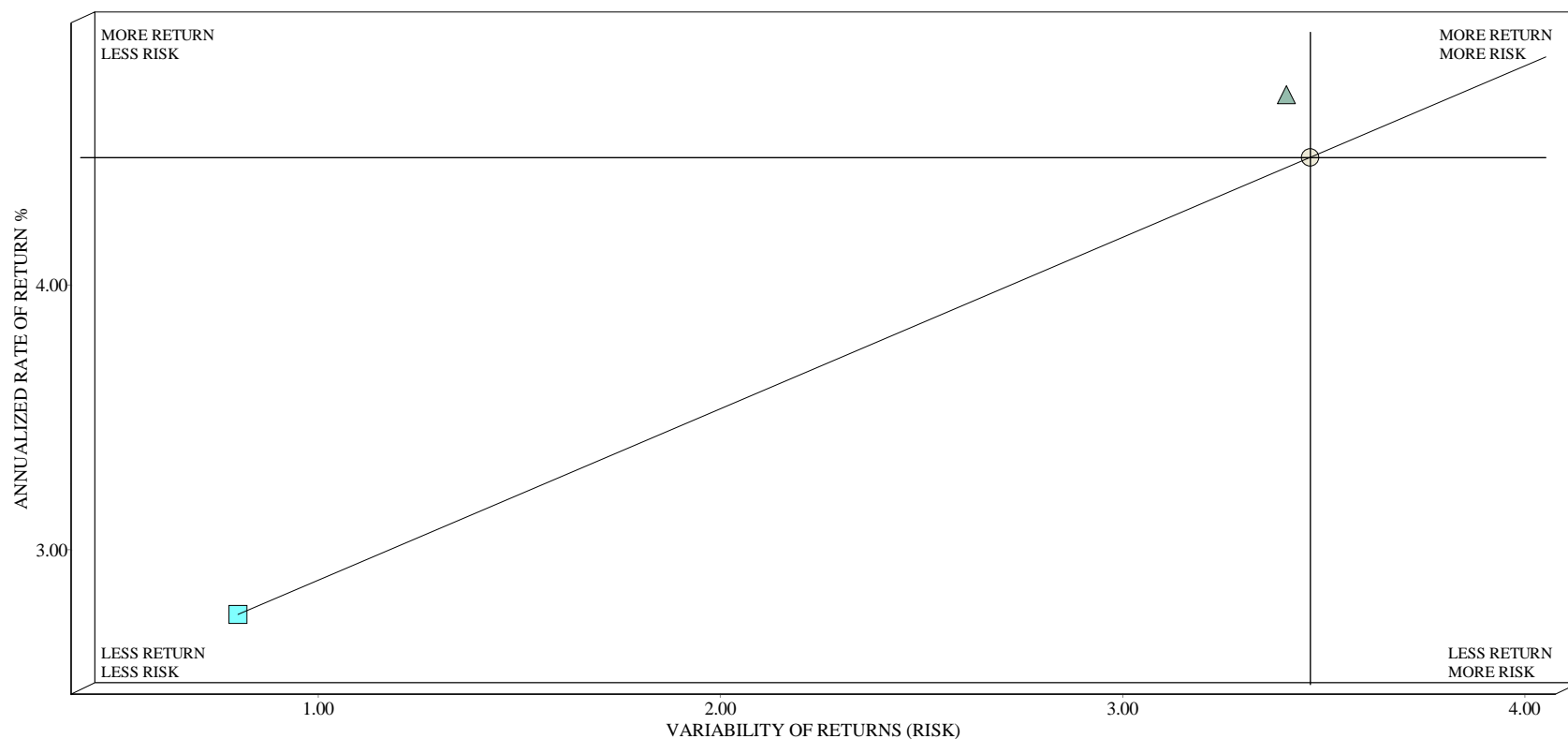
QUARTILE RANKING ANALYSIS
TOTAL FUND AGAINST CORE FIXED INCOME MUTUAL FUNDS



	LATEST QUARTER		CALENDAR YTD		ONE YEAR		THREE YEARS		FIVE YEARS	
HIGHEST VALUE		0.15		1.45		7.03		4.87		6.00
FIRST QUARTILE		-0.45		1.12		6.13		4.10		4.85
MEDIAN VALUE		-0.64		0.86		5.78		3.80		4.41
THIRD QUARTILE		-0.77		0.65		5.33		3.48		3.99
LOWEST VALUE		-1.30		0.25		4.60		2.96		3.39
MEAN		-0.61		0.87		5.76		3.79		4.42

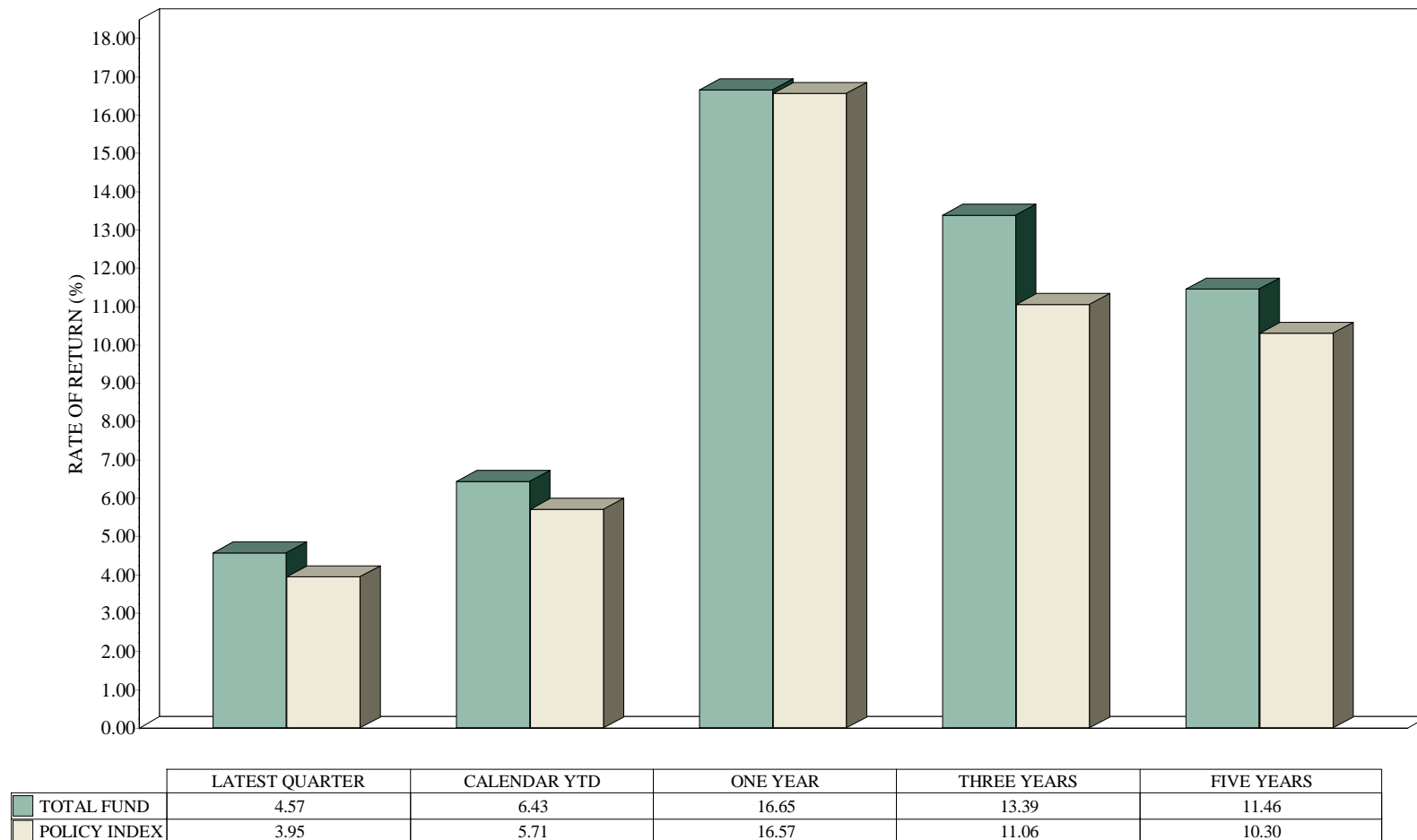
	LATEST QUARTER		CALENDAR YTD		ONE YEAR		THREE YEARS		FIVE YEARS	
	RETURN	RANK	RETURN	RANK	RETURN	RANK	RETURN	RANK	RETURN	RANK
▲ PRINCIPAL BOND MTG	-0.85	84	0.72	68	6.10	26	4.08	26	4.72	29
● LB AGGREGATE BOND	-0.52	32	0.97	42	6.11	25	3.98	32	4.48	46

PRINCIPAL BOND AND MORTGAGE
CAPITAL MARKET LINE - 5 YEARS

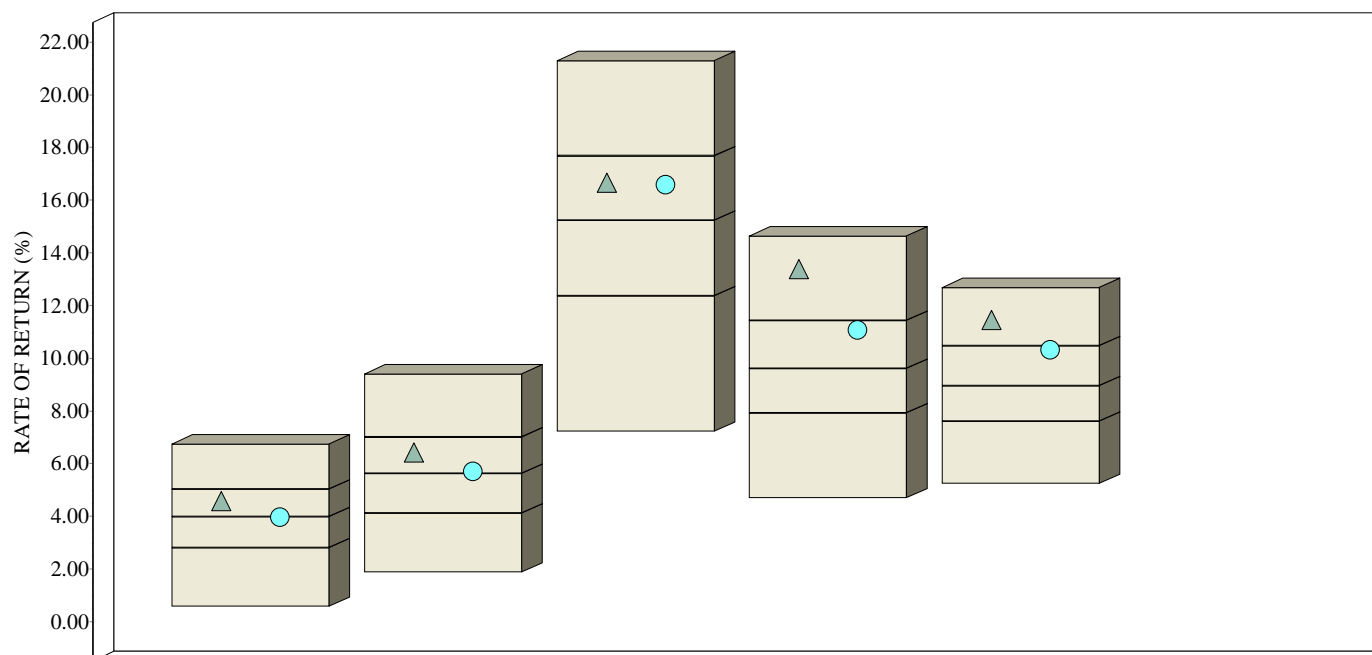


	RETURN	STD DEV	BETA	ALPHA	R-SQUARED
▲ TOTAL FUND	4.72	3.41	0.99	0.25	98.92
○ LB AGGREGATE BOND	4.48	3.47	1.00	0.00	100.00
■ 90 DAY U.S. T-BILL	2.75	0.80	1.00	0.00	100.00

**PRINCIPAL STOCK EMPHASIS BALANCED
TIME-WEIGHTED RETURNS**

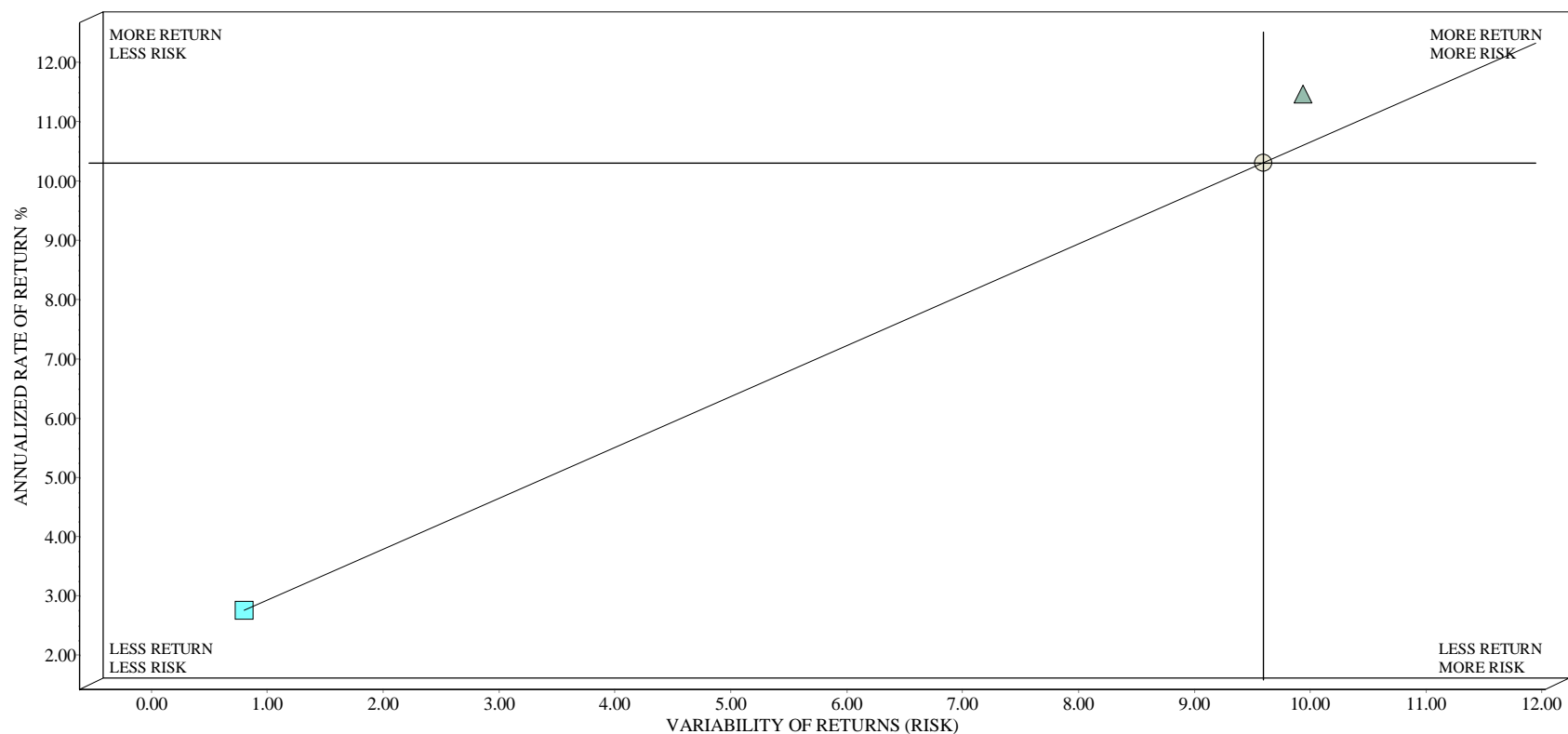


QUARTILE RANKING ANALYSIS
TOTAL FUND AGAINST BALANCED MUTUAL FUNDS



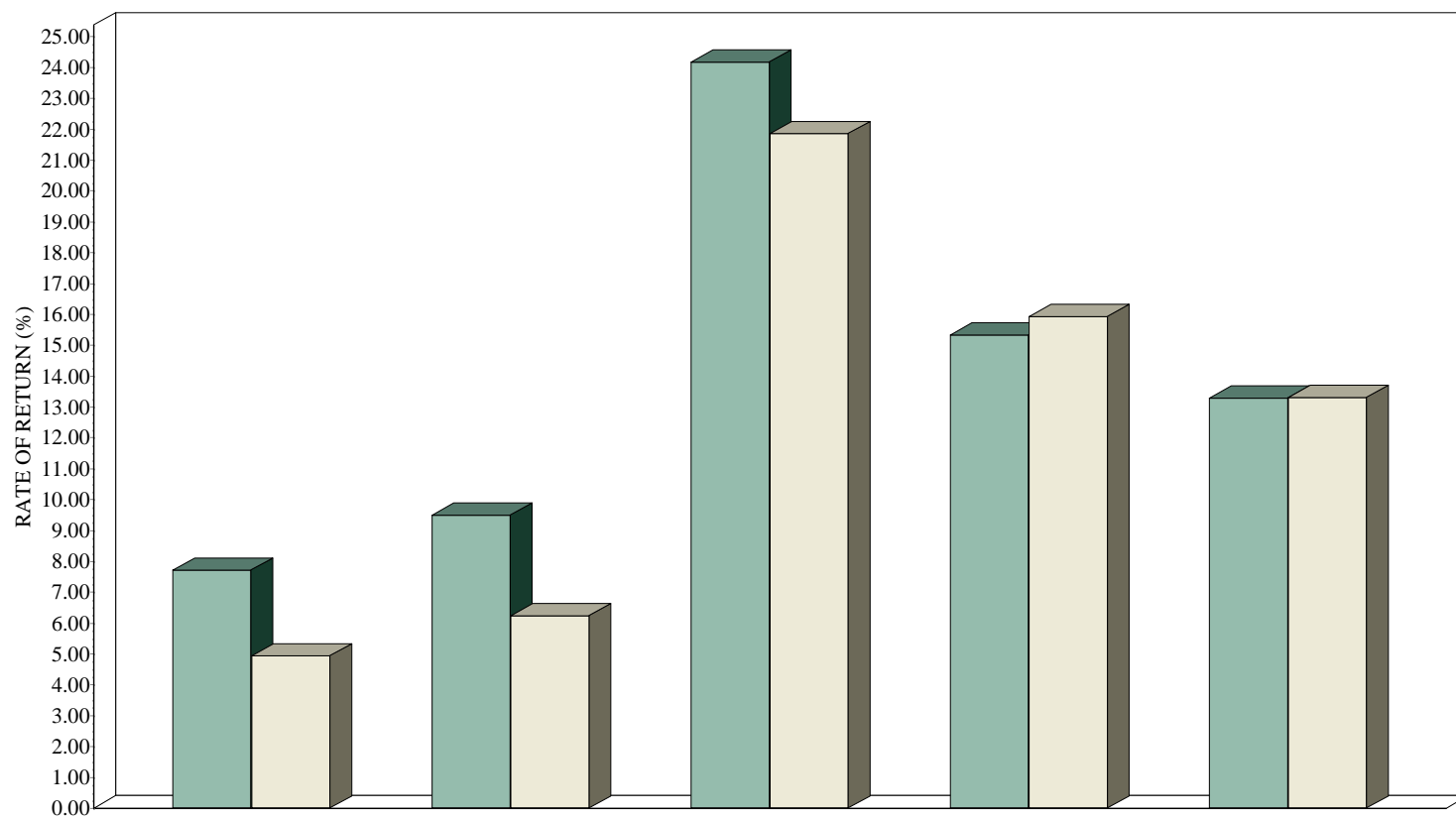
	LATEST QUARTER		CALENDAR YTD		ONE YEAR		THREE YEARS		FIVE YEARS	
	HIGHEST VALUE	6.73	9.39		21.29		14.64		12.68	
	FIRST QUARTILE	5.03	7.00		17.67		11.42		10.46	
	MEDIAN VALUE	3.99	5.62		15.23		9.61		8.96	
	THIRD QUARTILE	2.82	4.12		12.35		7.92		7.61	
	LOWEST VALUE	0.56	1.88		7.20		4.68		5.24	
	MEAN	3.90	5.64		14.92		9.65		8.98	
	LATEST QUARTER		CALENDAR YTD		ONE YEAR		THREE YEARS		FIVE YEARS	
	RETURN	RANK	RETURN	RANK	RETURN	RANK	RETURN	RANK	RETURN	RANK
▲ PRINCIPAL STOCK EMP	4.57	36	6.43	33	16.65	35	13.39	5	11.46	8
● POLICY INDEX	3.95	51	5.71	47	16.57	35	11.06	28	10.30	26

PRINCIPAL STOCK EMPHASIS BALANCED
CAPITAL MARKET LINE - 5 YEARS



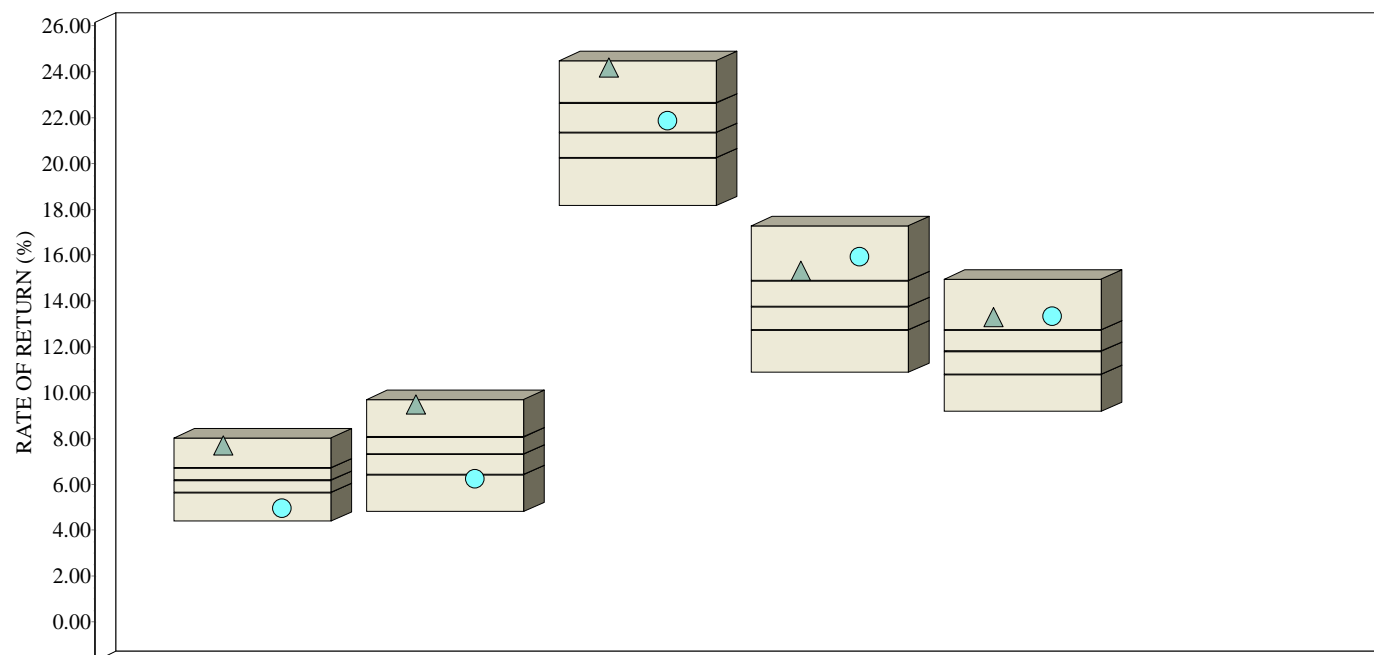
	RETURN	STD DEV	BETA	ALPHA	R-SQUARED
▲ TOTAL FUND	11.46	9.94	1.01	1.01	96.15
○ POLICY INDEX	10.30	9.60	1.00	0.00	100.00
■ 90 DAY U.S. T-BILL	2.75	0.80	1.00	0.00	100.00

VANGUARD WINDSOR II/INV
TIME-WEIGHTED RETURNS



	LATEST QUARTER	CALENDAR YTD	ONE YEAR	THREE YEARS	FIVE YEARS
TOTAL FUND	7.70	9.50	24.18	15.33	13.30
RUSSELL 1000 VALUE	4.93	6.23	21.86	15.93	13.31

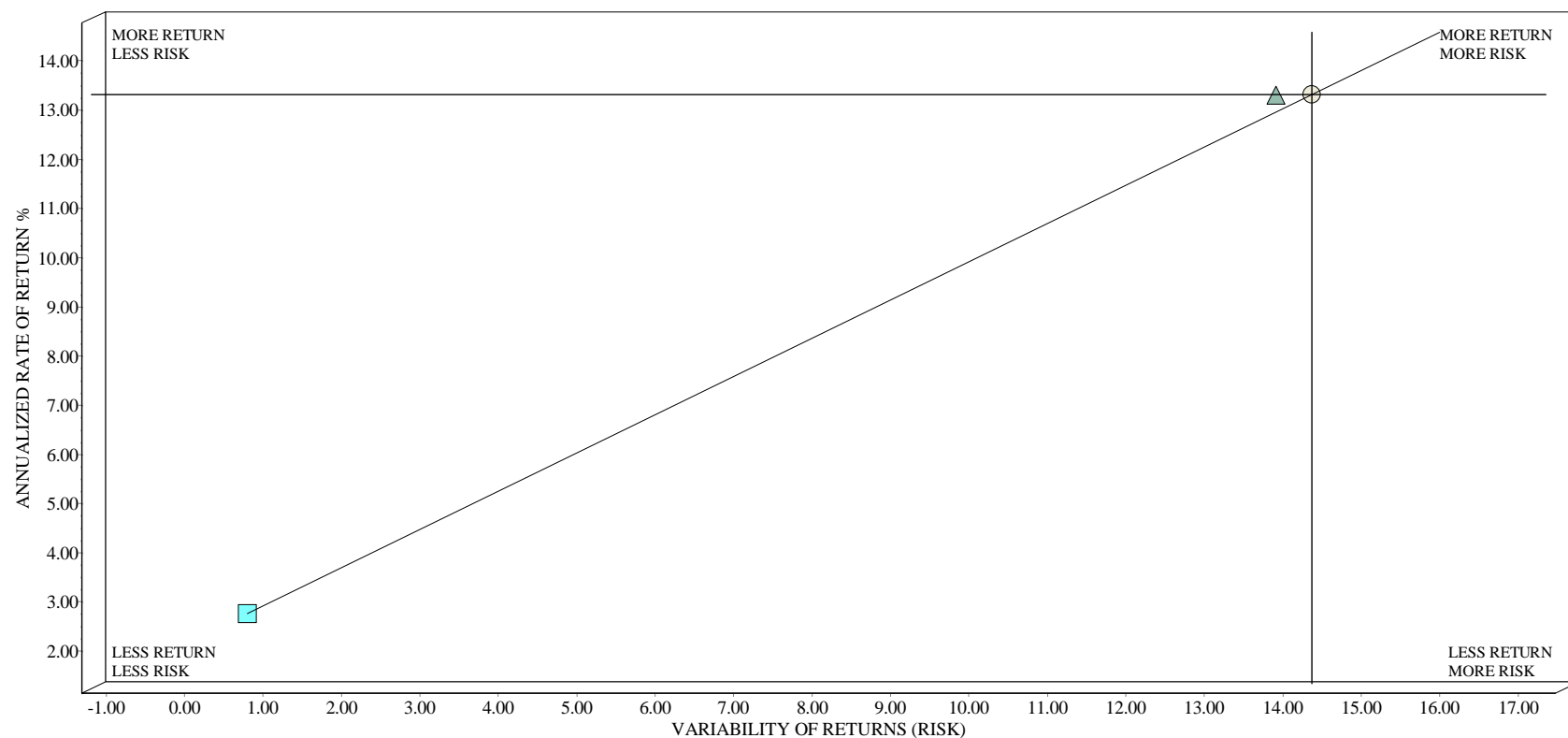
QUARTILE RANKING ANALYSIS
TOTAL FUND AGAINST S.A. LARGE CAP VALUE MUTUAL FUND UNIVERSE



	LATEST QUARTER		CALENDAR YTD		ONE YEAR		THREE YEARS		FIVE YEARS	
HIGHEST VALUE		8.01		9.70		24.49		17.27		14.93
FIRST QUARTILE		6.71		8.04		22.64		14.87		12.72
MEDIAN VALUE		6.15		7.32		21.35		13.74		11.80
THIRD QUARTILE		5.64		6.40		20.25		12.74		10.79
LOWEST VALUE		4.37		4.78		18.13		10.85		9.17
MEAN		6.12		7.22		21.43		13.81		11.79

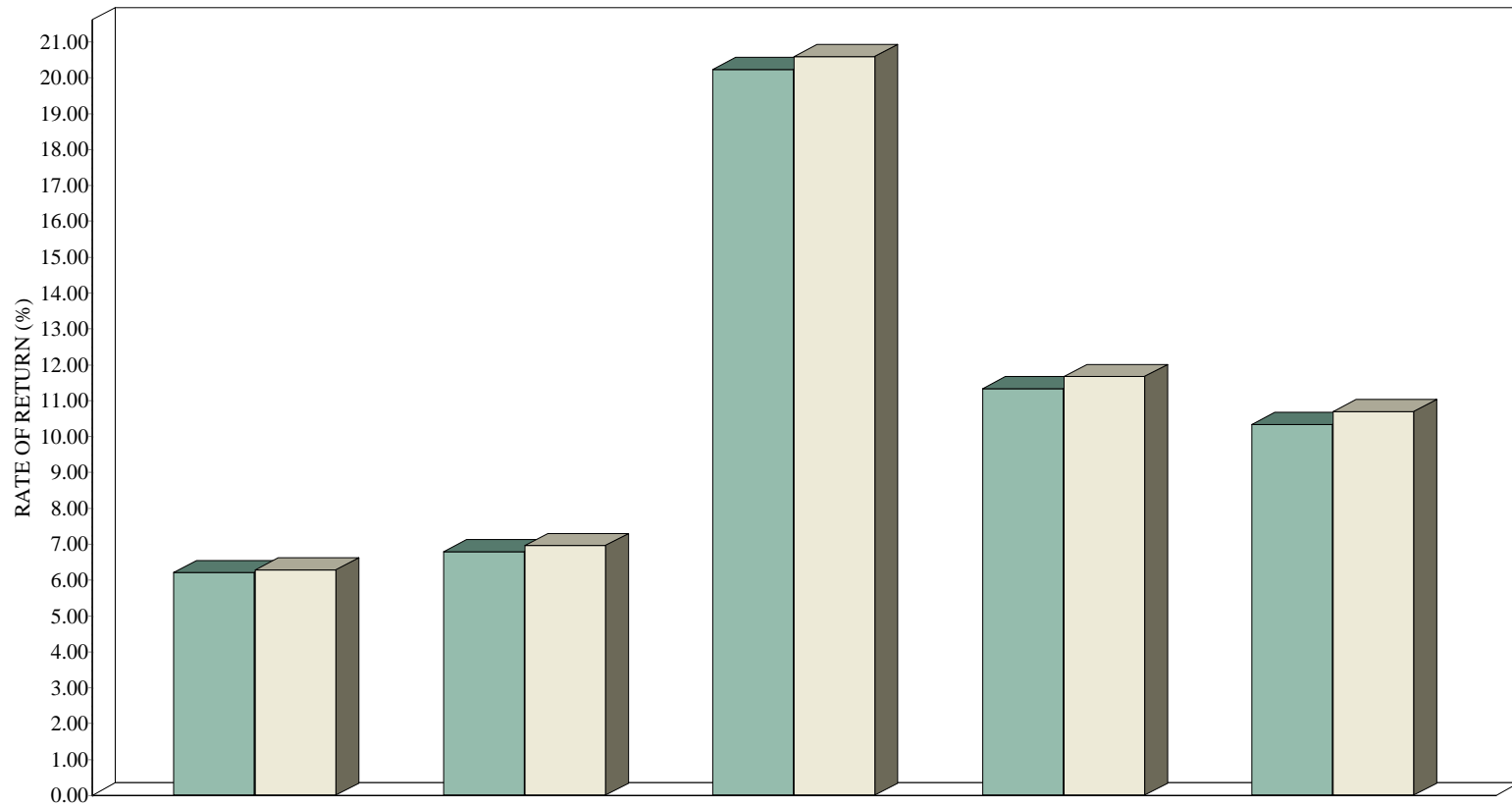
	LATEST QUARTER		CALENDAR YTD		ONE YEAR		THREE YEARS		FIVE YEARS	
	RETURN	RANK	RETURN	RANK	RETURN	RANK	RETURN	RANK	RETURN	RANK
▲ VANGUARD WINDSOR	7.70	2	9.50	1	24.18	3	15.33	17	13.30	13
● RUSSELL 1000 VALUE	4.93	92	6.23	77	21.86	39	15.93	10	13.31	13

VANGUARD WINDSOR II/INV
CAPITAL MARKET LINE - 5 YEARS



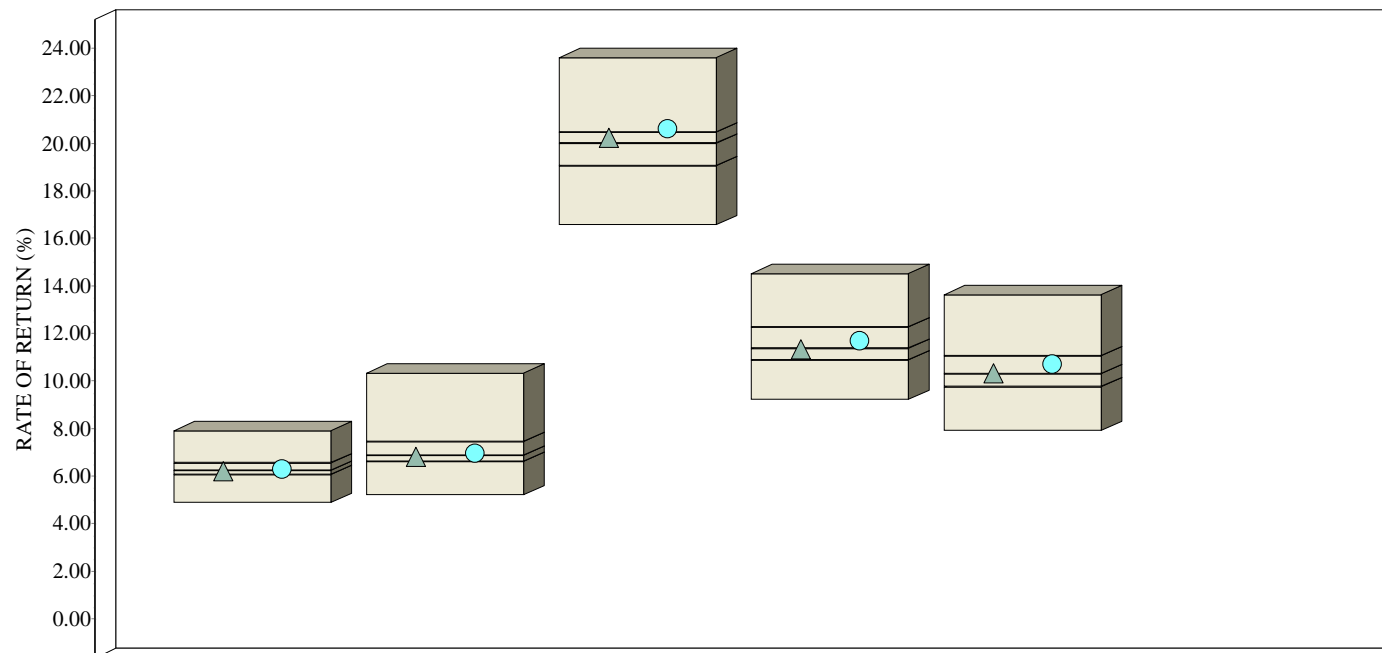
	RETURN	STD DEV	BETA	ALPHA	R-SQUARED
▲ TOTAL FUND	13.30	13.91	0.95	0.47	95.77
○ RUSSELL 1000 VALUE	13.31	14.37	1.00	0.00	100.00
■ 90 DAY U.S. T-BILL	2.75	0.80	1.00	0.00	100.00

**PRINCIPAL LARGE CAP STOCK INDEX
TIME-WEIGHTED RETURNS**



	LATEST QUARTER	CALENDAR YTD	ONE YEAR	THREE YEARS	FIVE YEARS
TOTAL FUND	6.21	6.80	20.23	11.34	10.33
S&P 500	6.28	6.96	20.59	11.67	10.71

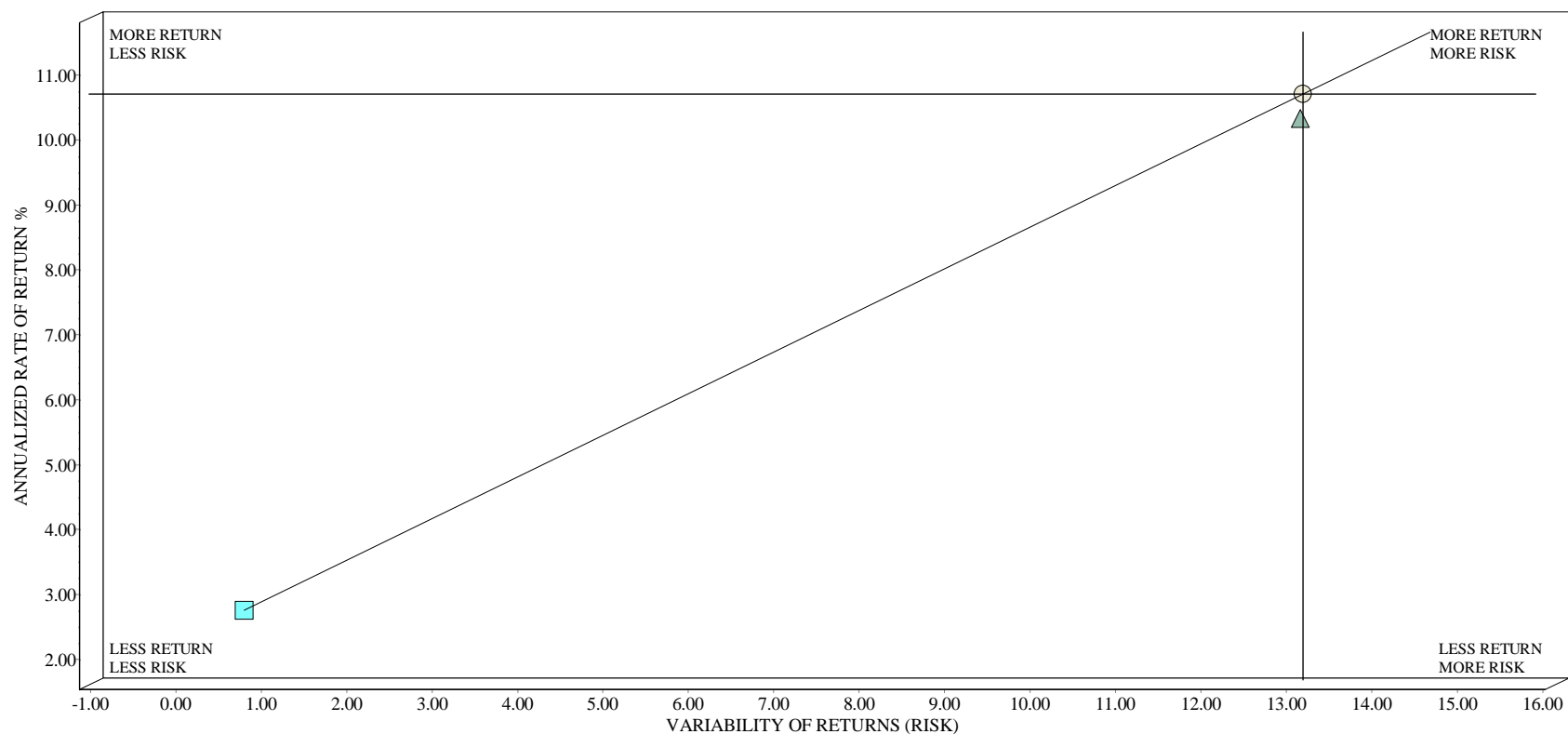
QUARTILE RANKING ANALYSIS
TOTAL FUND AGAINST S. A. LARGE CAP BLEND MUTUAL FUND UNIVERSE



	LATEST QUARTER		CALENDAR YTD		ONE YEAR		THREE YEARS		FIVE YEARS	
HIGHEST VALUE		7.91		10.33		23.60		14.52		13.63
FIRST QUARTILE		6.54		7.45		20.45		12.26		11.05
MEDIAN VALUE		6.23		6.86		19.98		11.37		10.30
THIRD QUARTILE		6.04		6.61		19.04		10.86		9.75
LOWEST VALUE		4.88		5.20		16.55		9.19		7.90
MEAN		6.28		7.04		19.79		11.52		10.41

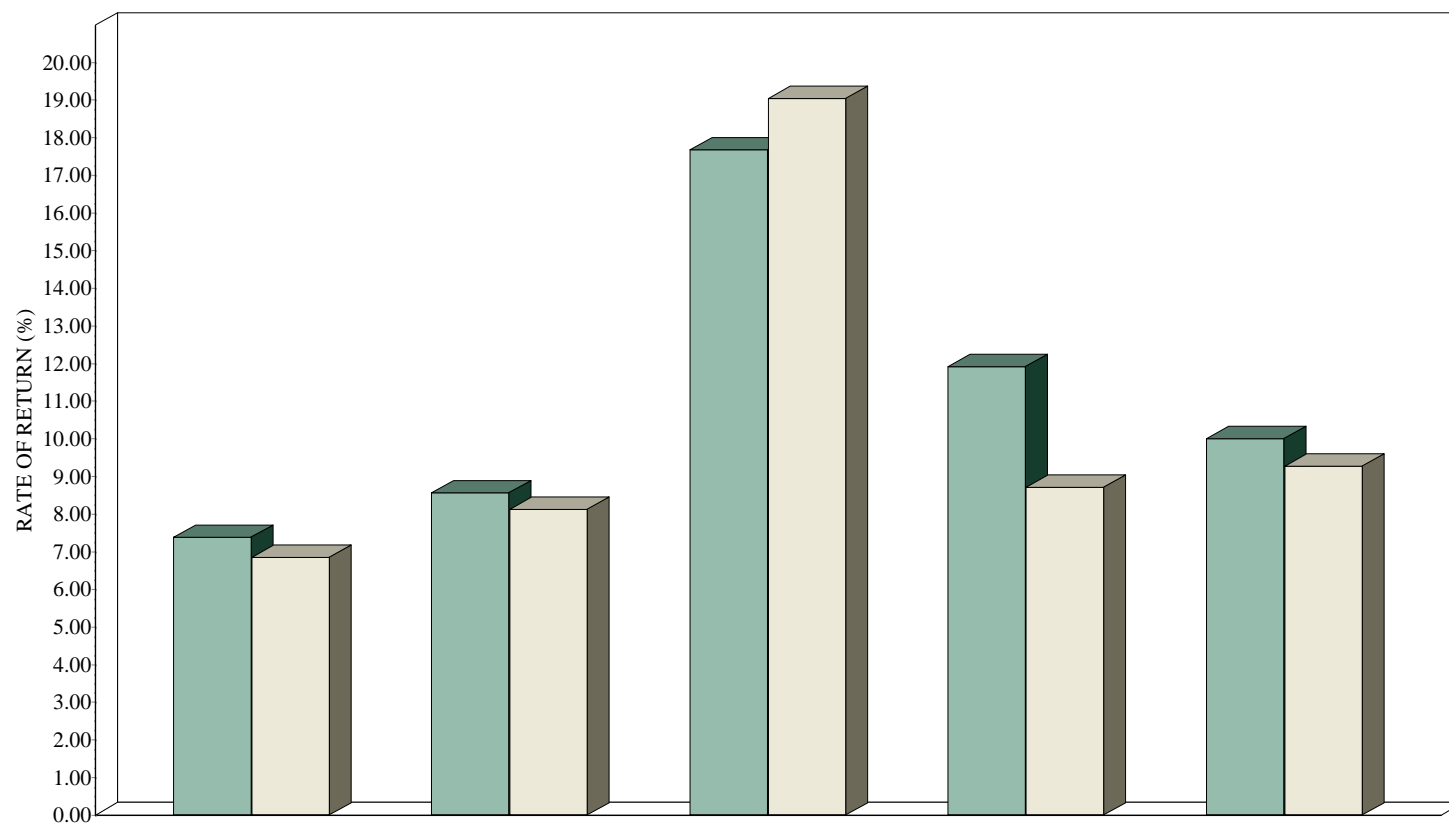
	LATEST QUARTER		CALENDAR YTD		ONE YEAR		THREE YEARS		FIVE YEARS	
	RETURN	RANK	RETURN	RANK	RETURN	RANK	RETURN	RANK	RETURN	RANK
▲ PRINCIPAL LARGE CAP	6.21	52	6.80	56	20.23	37	11.34	51	10.33	48
● S&P 500	6.28	37	6.96	39	20.59	19	11.67	34	10.71	29

PRINCIPAL LARGE CAP STOCK INDEX
CAPITAL MARKET LINE - 5 YEARS



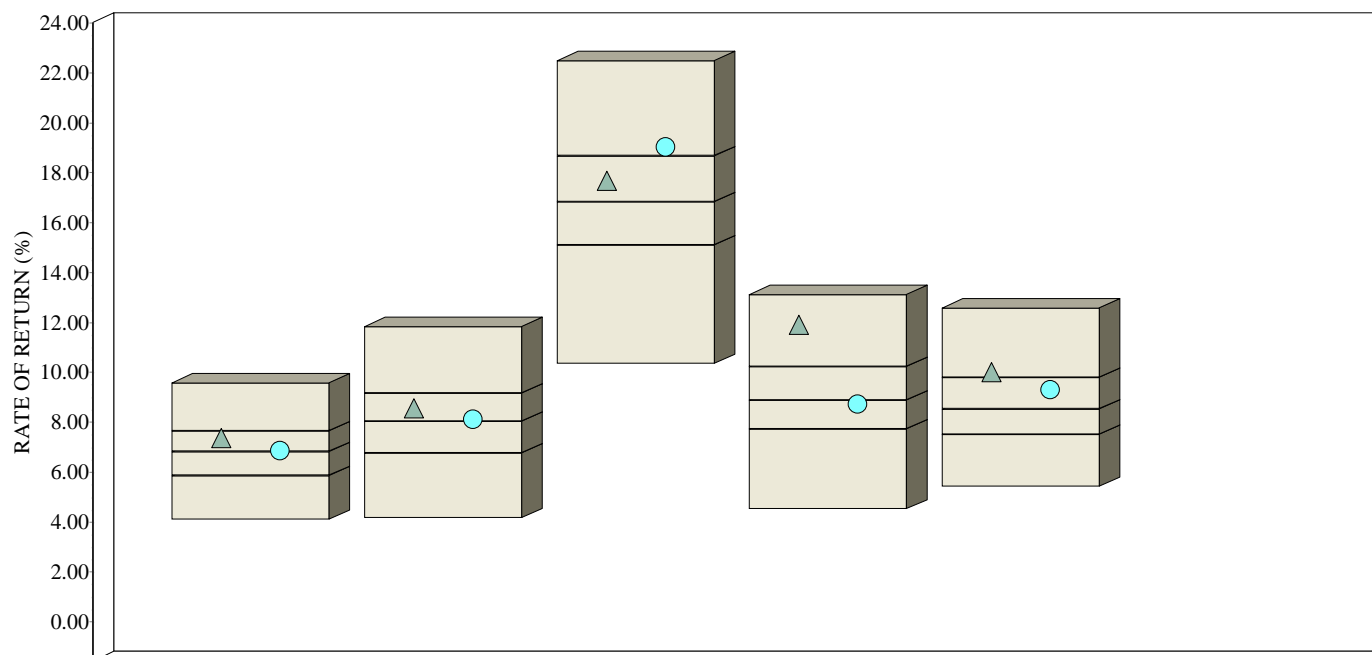
	RETURN	STD DEV	BETA	ALPHA	R-SQUARED
▲ TOTAL FUND	10.33	13.17	1.00	-0.33	100.00
● S&P 500	10.71	13.19	1.00	0.00	100.00
■ 90 DAY U.S. T-BILL	2.75	0.80	1.00	0.00	100.00

**PRINCIPAL LARGE COMPANY GROWTH
TIME-WEIGHTED RETURNS**



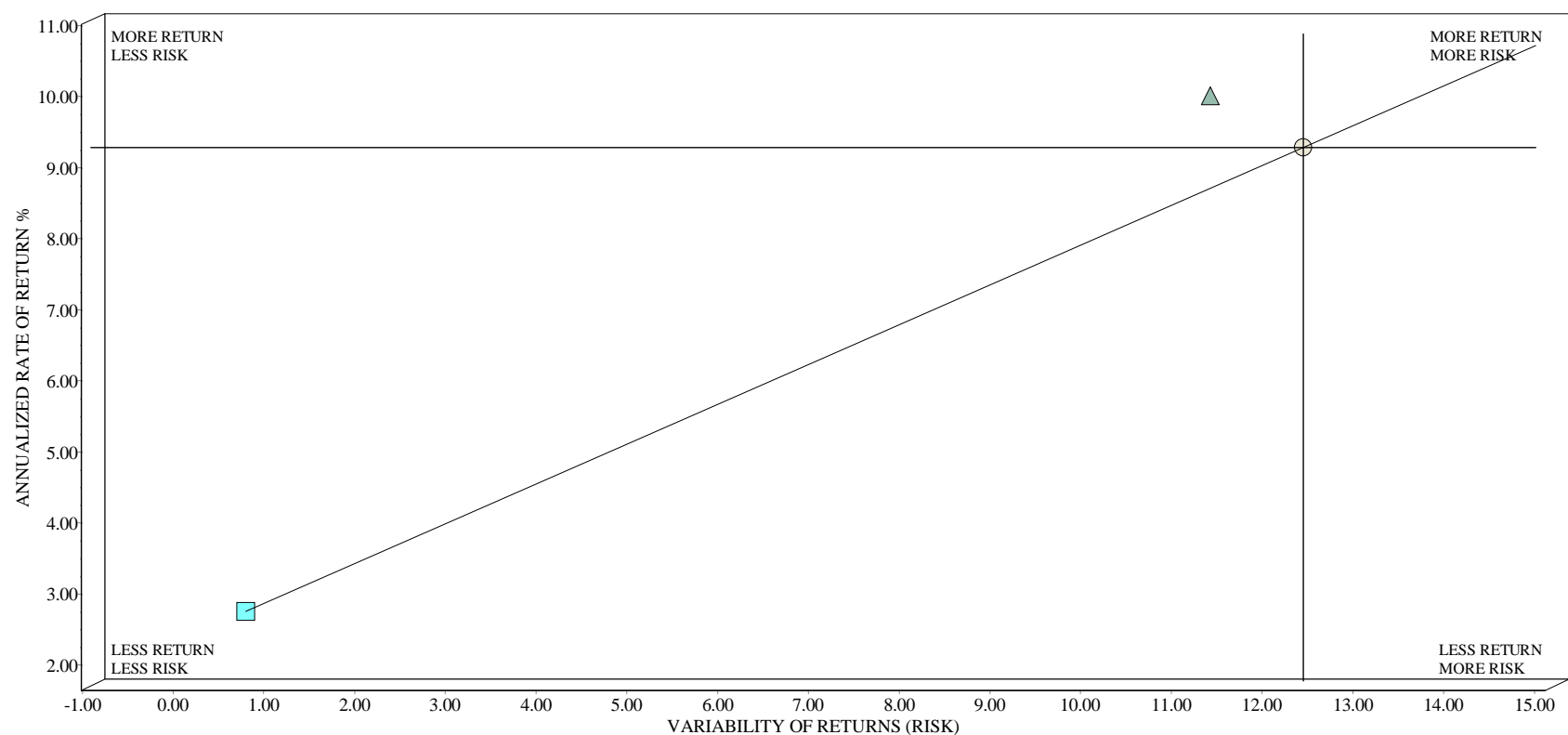
	LATEST QUARTER	CALENDAR YTD	ONE YEAR	THREE YEARS	FIVE YEARS
TOTAL FUND	7.37	8.56	17.67	11.91	10.01
RUSSELL 1000 GROWTH	6.86	8.13	19.04	8.71	9.28

QUARTILE RANKING ANALYSIS
TOTAL FUND AGAINST S.A. LARGE CAP GROWTH MUTUAL FUND UNIVERSE



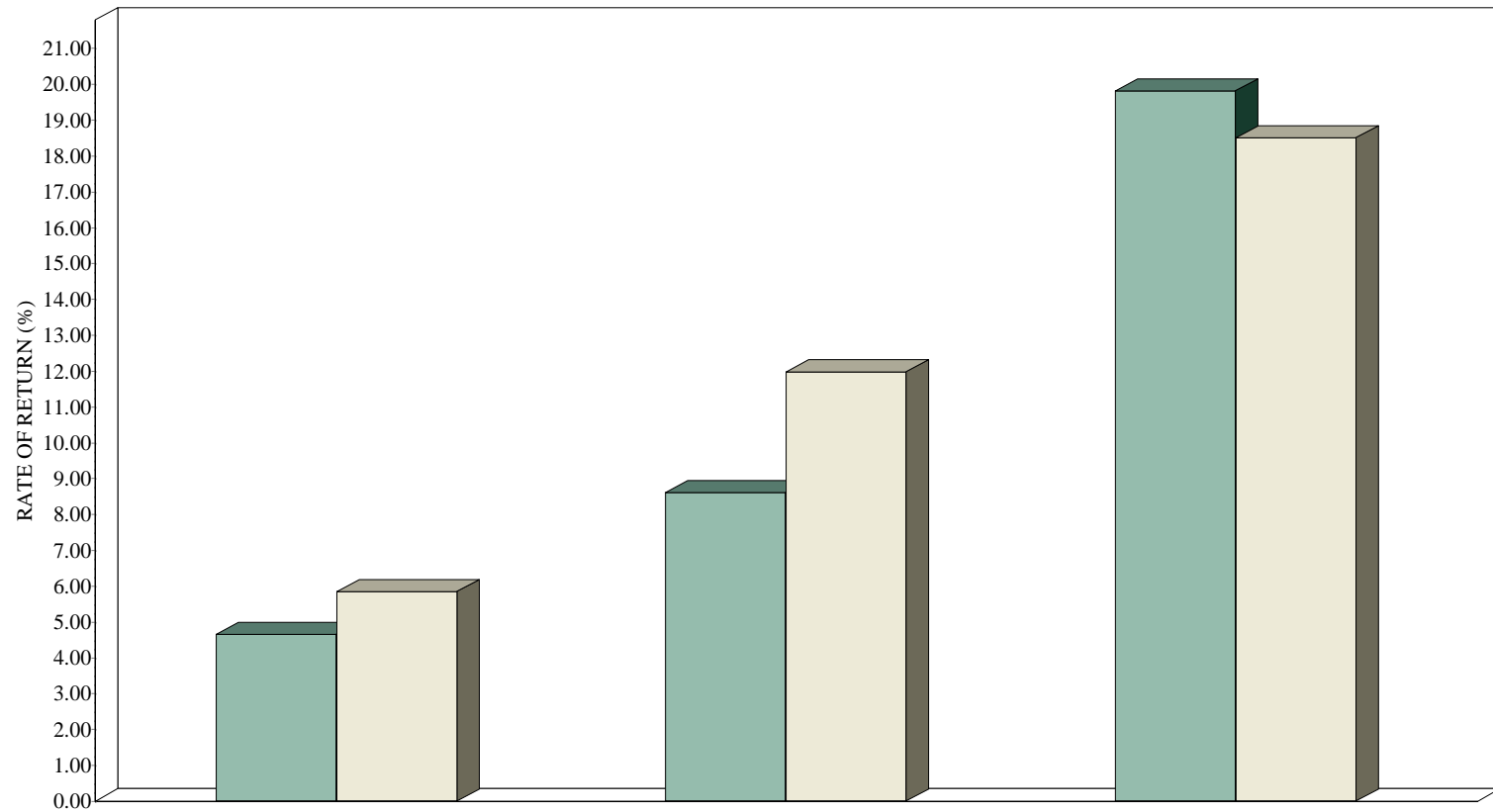
	<u>LATEST QUARTER</u>		<u>CALENDAR YTD</u>		<u>ONE YEAR</u>		<u>THREE YEARS</u>		<u>FIVE YEARS</u>	
HIGHEST VALUE		9.56		11.81		22.50		13.11		12.58
FIRST QUARTILE		7.63		9.15		18.67		10.22		9.78
MEDIAN VALUE		6.82		8.04		16.83		8.88		8.52
THIRD QUARTILE		5.85		6.75		15.10		7.73		7.51
LOWEST VALUE		4.09		4.15		10.33		4.50		5.41
MEAN		6.76		7.92		16.81		9.02		8.62
	<u>LATEST QUARTER</u>		<u>CALENDAR YTD</u>		<u>ONE YEAR</u>		<u>THREE YEARS</u>		<u>FIVE YEARS</u>	
	RETURN	RANK	RETURN	RANK	RETURN	RANK	RETURN	RANK	RETURN	RANK
▲ PRINCIPAL LARGE CO	7.37	31	8.56	35	17.67	35	11.91	8	10.01	21
● RUSSELL 1000 GROWTH	6.86	48	8.13	48	19.04	20	8.71	55	9.28	35

PRINCIPAL LARGE COMPANY GROWTH
CAPITAL MARKET LINE - 5 YEARS



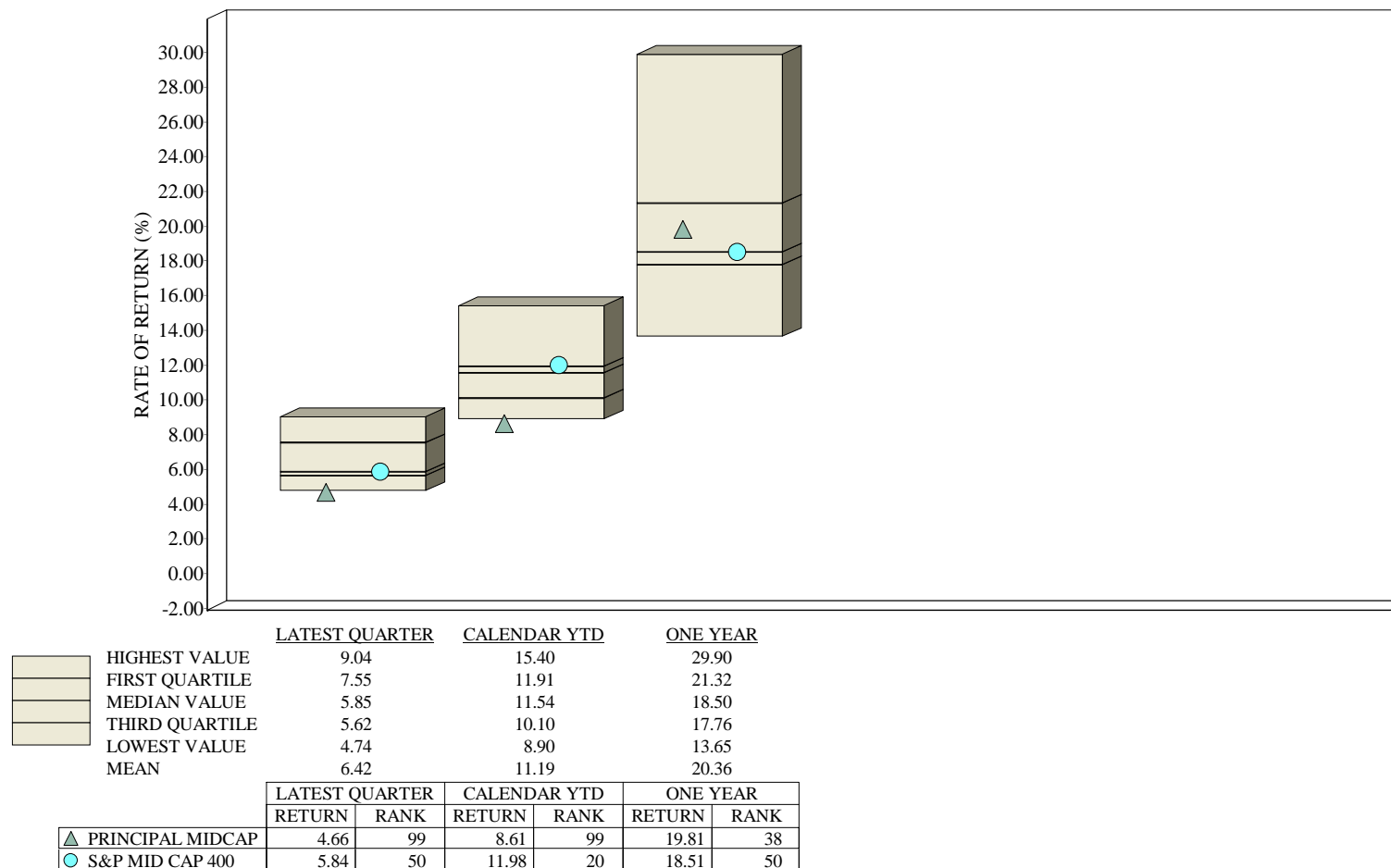
	RETURN	STD DEV	BETA	ALPHA	R-SQUARED
▲ TOTAL FUND	10.01	11.43	0.86	1.56	88.09
○ RUSSELL 1000 GROWTH	9.28	12.45	1.00	0.00	100.00
■ 90 DAY U.S. T-BILL	2.75	0.80	1.00	0.00	100.00

**PRINCIPAL MIDCAP STOCK FUND
TIME-WEIGHTED RETURNS**

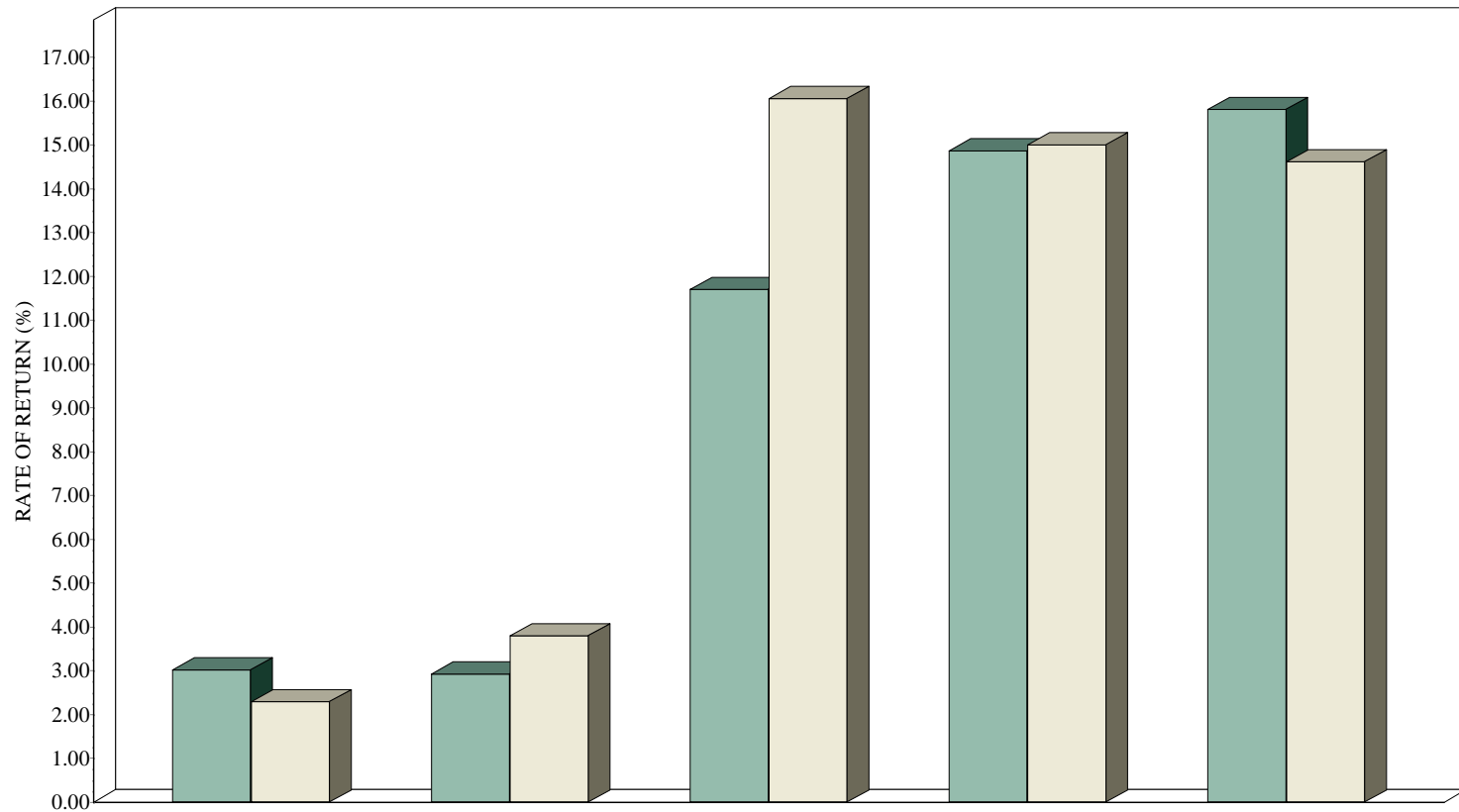


	LATEST QUARTER	CALENDAR YTD	ONE YEAR
TOTAL FUND	4.66	8.61	19.81
S&P MID CAP 400	5.84	11.98	18.51

**QUARTILE RANKING ANALYSIS
TOTAL FUND AGAINST S.A. MID CAP BLEND MUTUAL FUND UNIVERSE**

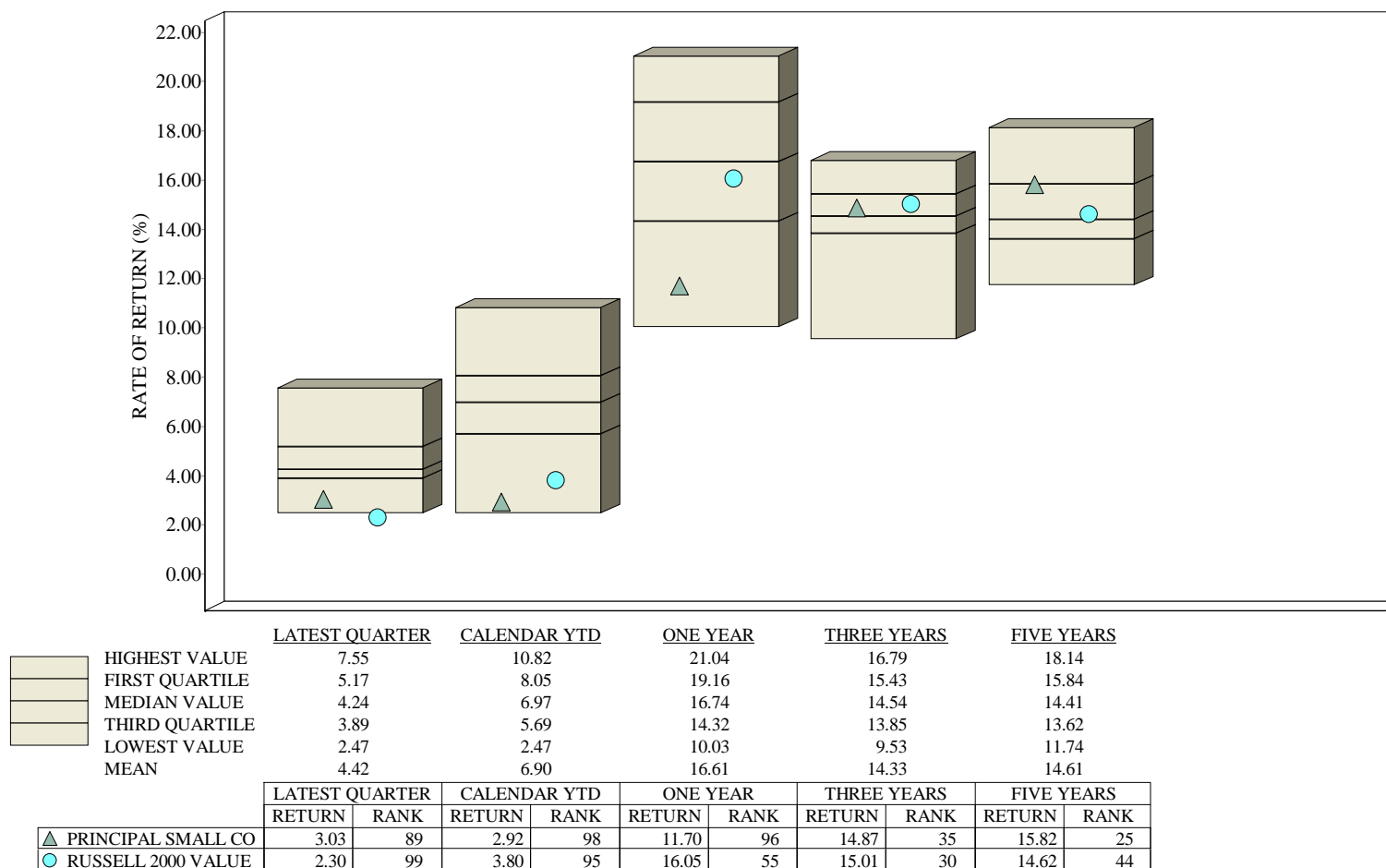


**PRINCIPAL SMALL COMPANY VALUE
TIME-WEIGHTED RETURNS**

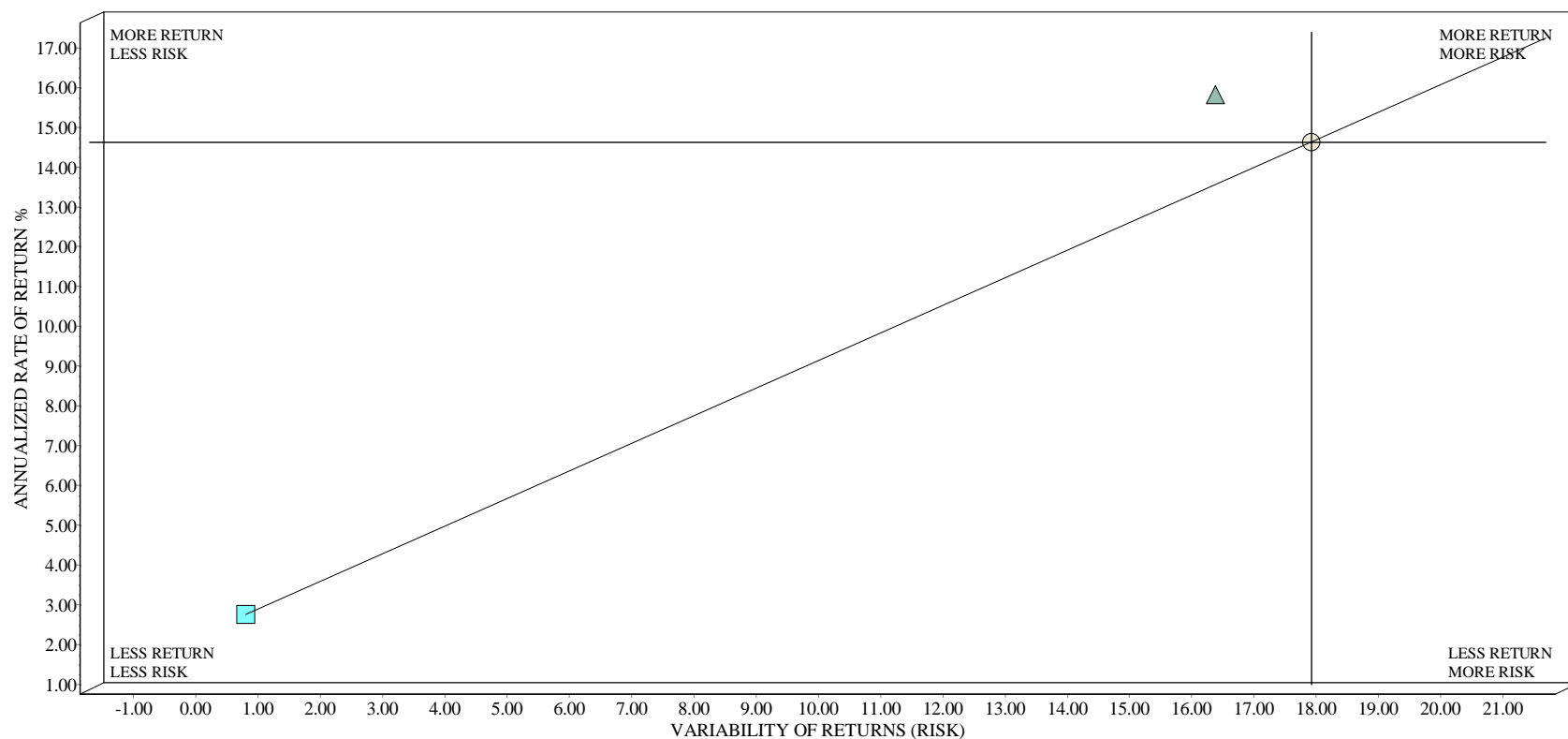


	LATEST QUARTER	CALENDAR YTD	ONE YEAR	THREE YEARS	FIVE YEARS
TOTAL FUND	3.03	2.92	11.70	14.87	15.82
RUSSELL 2000 VALUE	2.30	3.80	16.05	15.01	14.62

QUARTILE RANKING ANALYSIS
TOTAL FUND AGAINST S.A. SMALL CAP VALUE MUTUAL FUND UNIVERSE

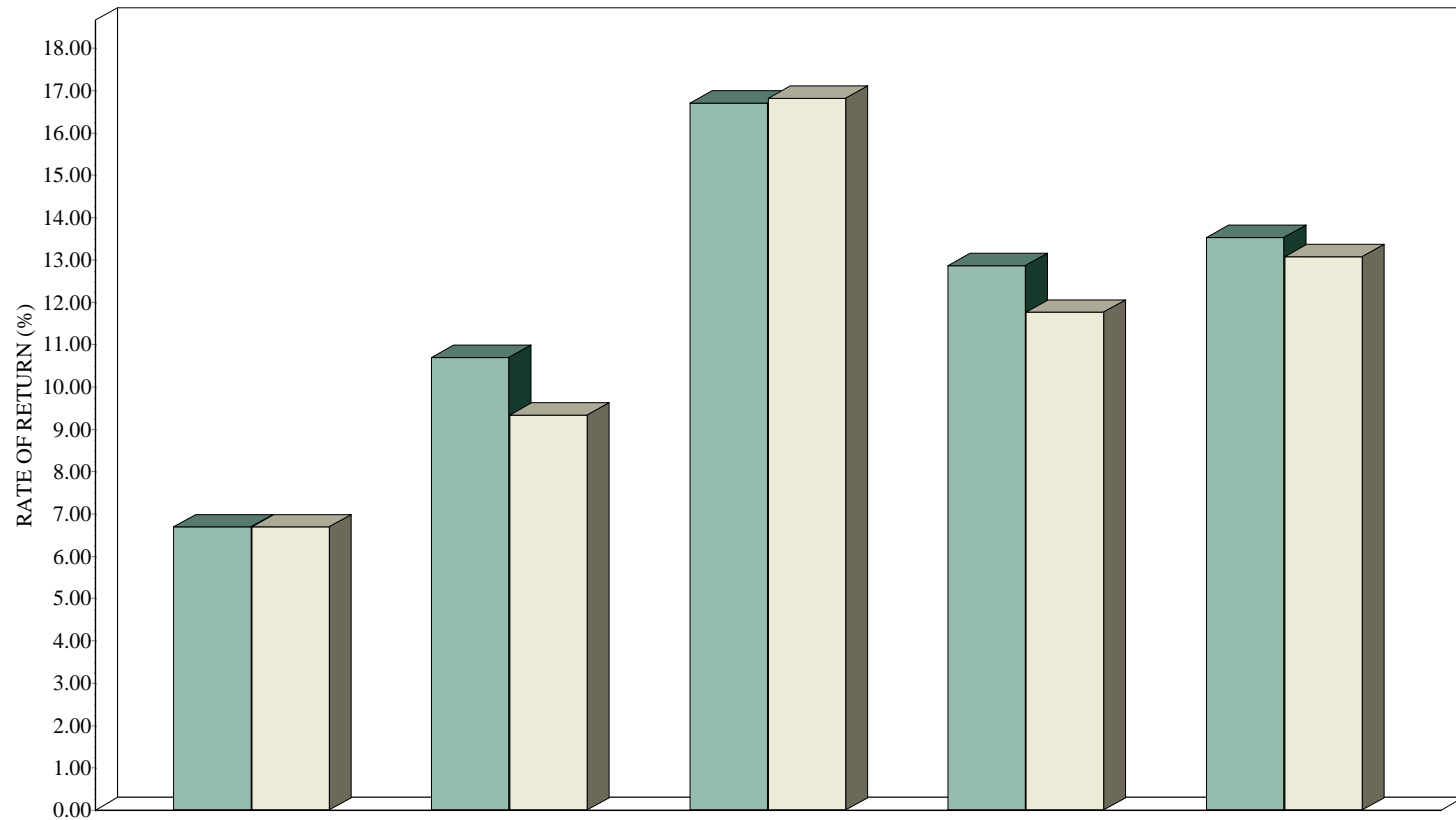


PRINCIPAL SMALL COMPANY VALUE
CAPITAL MARKET LINE - 5 YEARS



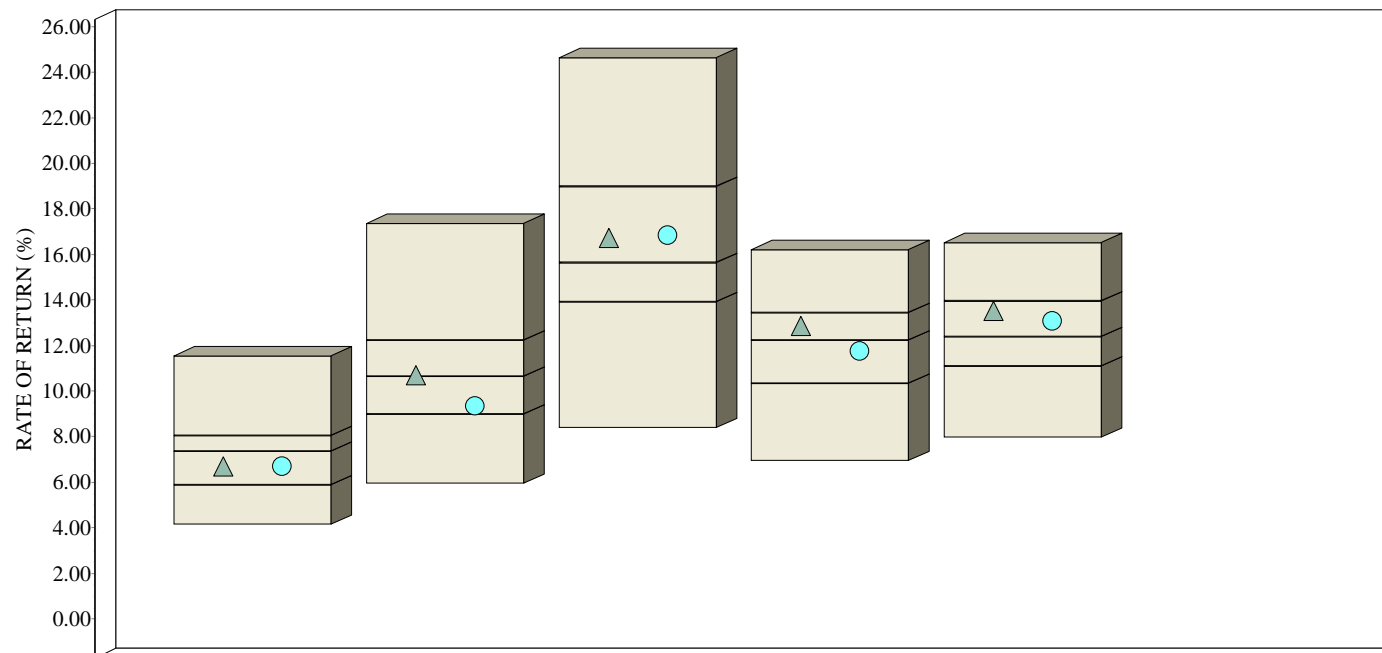
	RETURN	STD DEV	BETA	ALPHA	R-SQUARED
▲ TOTAL FUND	15.82	16.38	0.90	2.05	96.17
○ RUSSELL 2000 VALUE	14.62	17.92	1.00	0.00	100.00
■ 90 DAY U.S. T-BILL	2.75	0.80	1.00	0.00	100.00

**VANGUARD EXPLORER
TIME-WEIGHTED RETURNS**



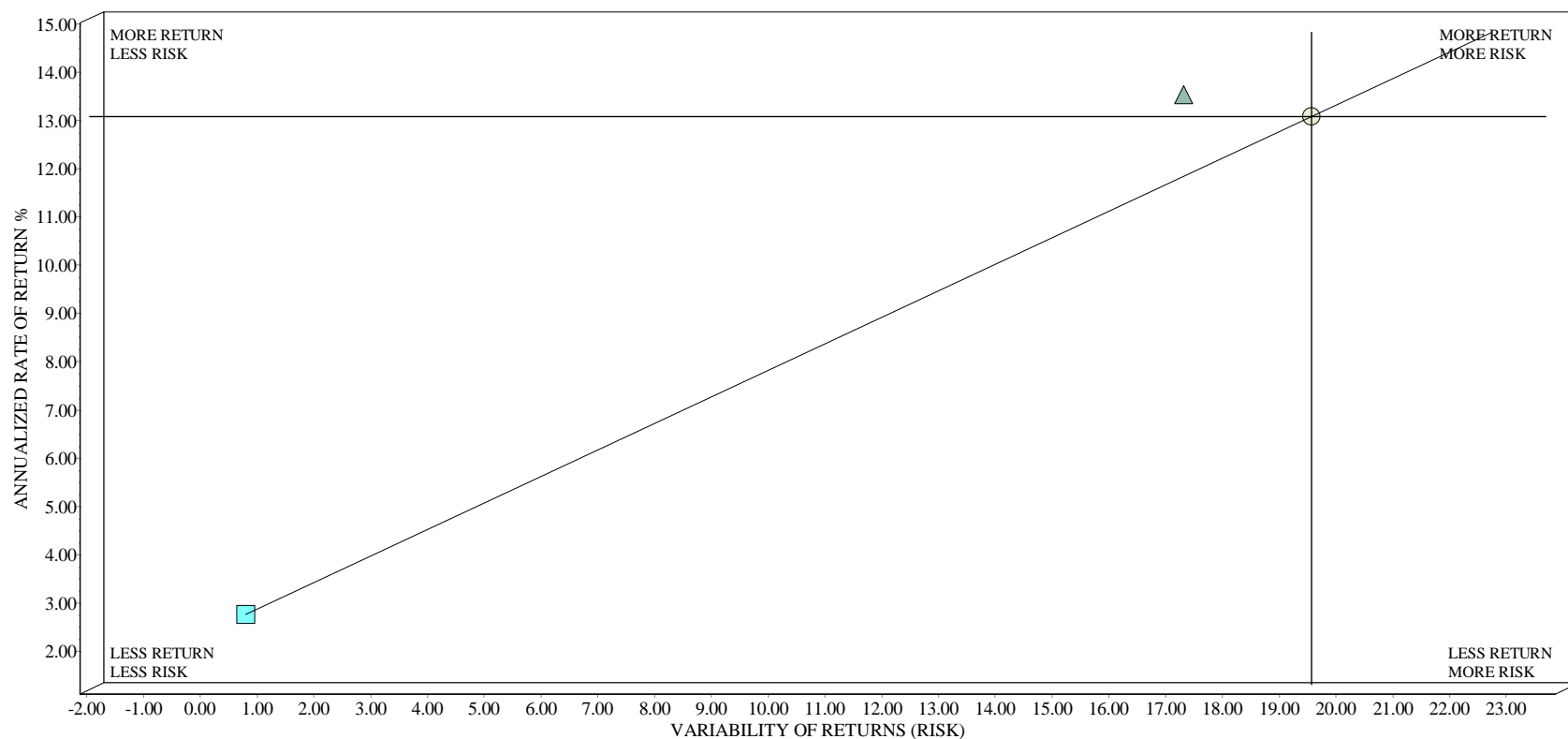
	LATEST QUARTER	CALENDAR YTD	ONE YEAR	THREE YEARS	FIVE YEARS
TOTAL FUND	6.69	10.69	16.71	12.87	13.53
RUSSELL 2000 GROWTH	6.69	9.33	16.83	11.76	13.08

QUARTILE RANKING ANALYSIS
TOTAL FUND AGAINST S.A. SMALL CAP GROWTH MUTUAL FUND UNIVERSE



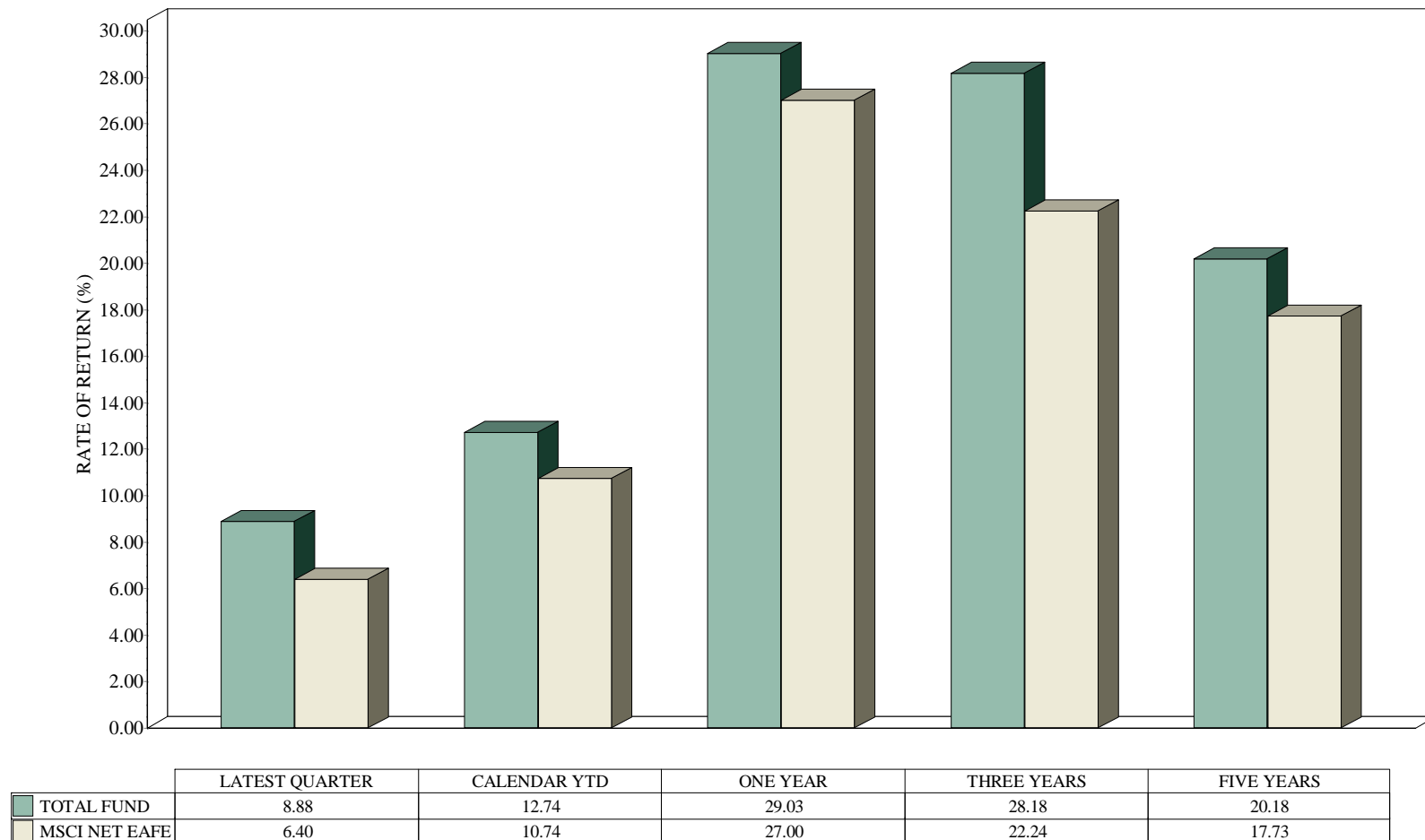
	LATEST QUARTER		CALENDAR YTD		ONE YEAR		THREE YEARS		FIVE YEARS	
HIGHEST VALUE		11.53		17.35		24.64		16.21		16.50
FIRST QUARTILE		8.05		12.23		18.98		13.45		13.94
MEDIAN VALUE		7.34		10.63		15.64		12.24		12.38
THIRD QUARTILE		5.86		8.98		13.92		10.32		11.10
LOWEST VALUE		4.12		5.94		8.39		6.93		7.94
MEAN		7.16		10.66		16.41		12.02		12.48
	LATEST QUARTER		CALENDAR YTD		ONE YEAR		THREE YEARS		FIVE YEARS	
	RETURN	RANK	RETURN	RANK	RETURN	RANK	RETURN	RANK	RETURN	RANK
▲ VANGUARD EXPLORER	6.69	62	10.69	48	16.71	44	12.87	34	13.53	30
● RUSSELL 2000 GROWTH	6.69	62	9.33	70	16.83	43	11.76	62	13.08	35

**VANGUARD EXPLORER
CAPITAL MARKET LINE - 5 YEARS**

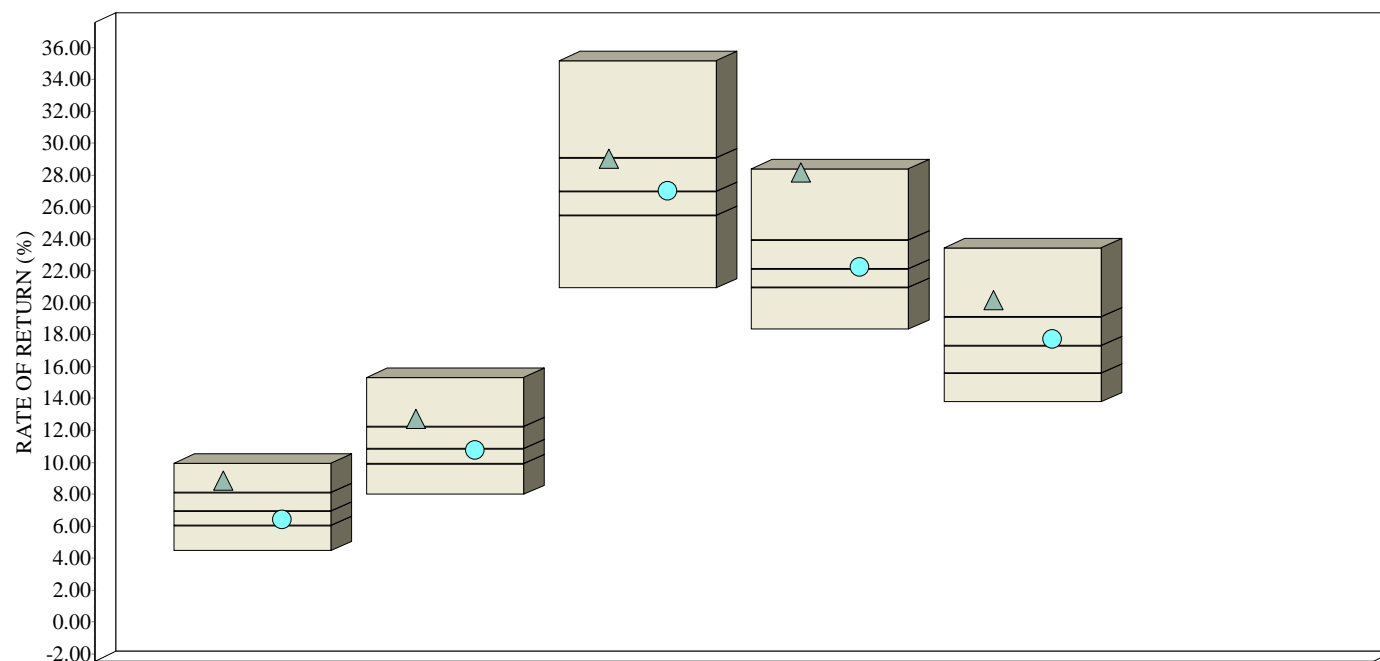


	RETURN	STD DEV	BETA	ALPHA	R-SQUARED
▲ TOTAL FUND	13.53	17.32	0.88	1.38	98.66
○ RUSSELL 2000 GROWTH	13.08	19.57	1.00	0.00	100.00
■ 90 DAY U.S. T-BILL	2.75	0.80	1.00	0.00	100.00

**PRINCIPAL INTERNATIONAL STOCK
TIME-WEIGHTED RETURNS**

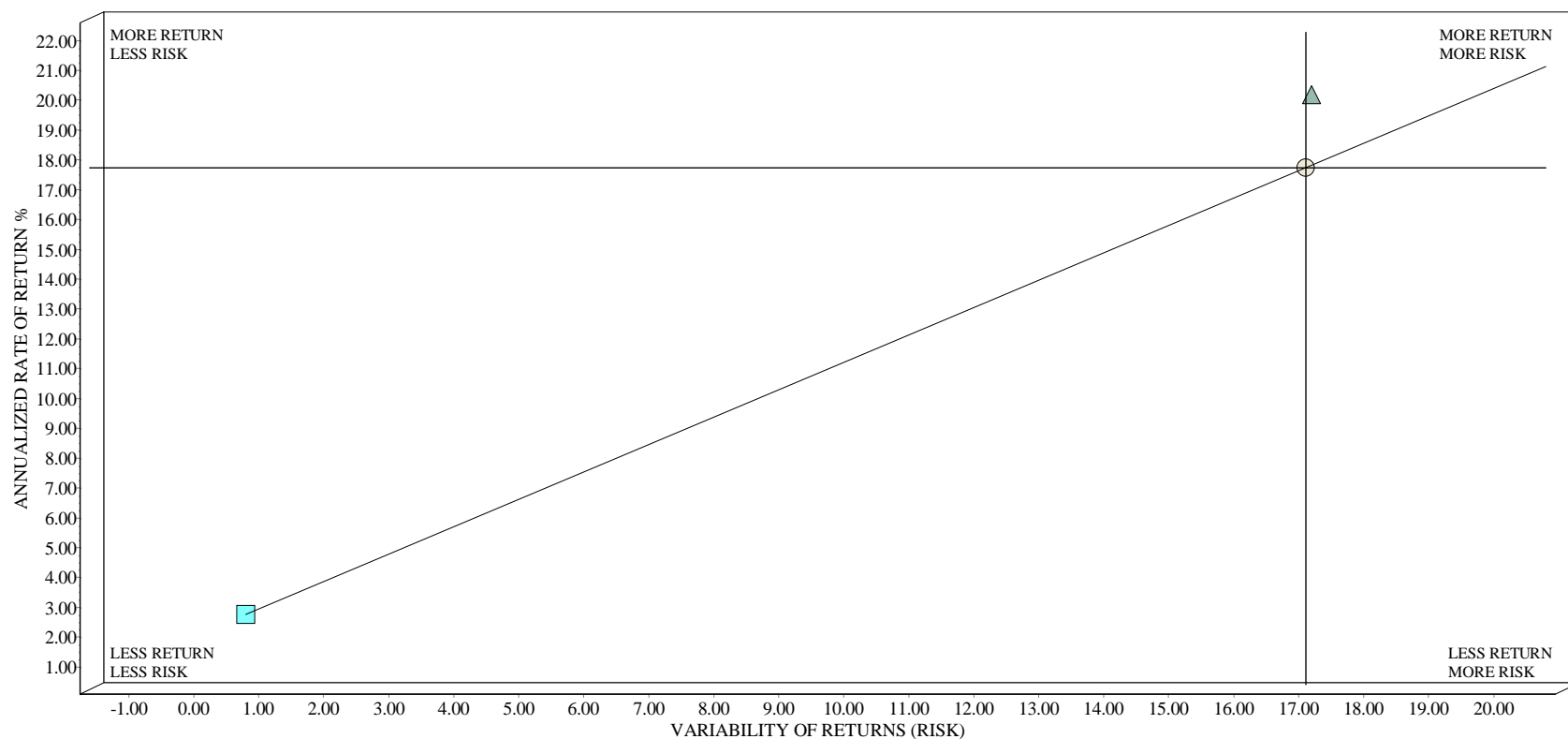


QUARTILE RANKING ANALYSIS
TOTAL FUND AGAINST S.A. FOREIGN EQUITY MUTUAL FUND UNIVERSE



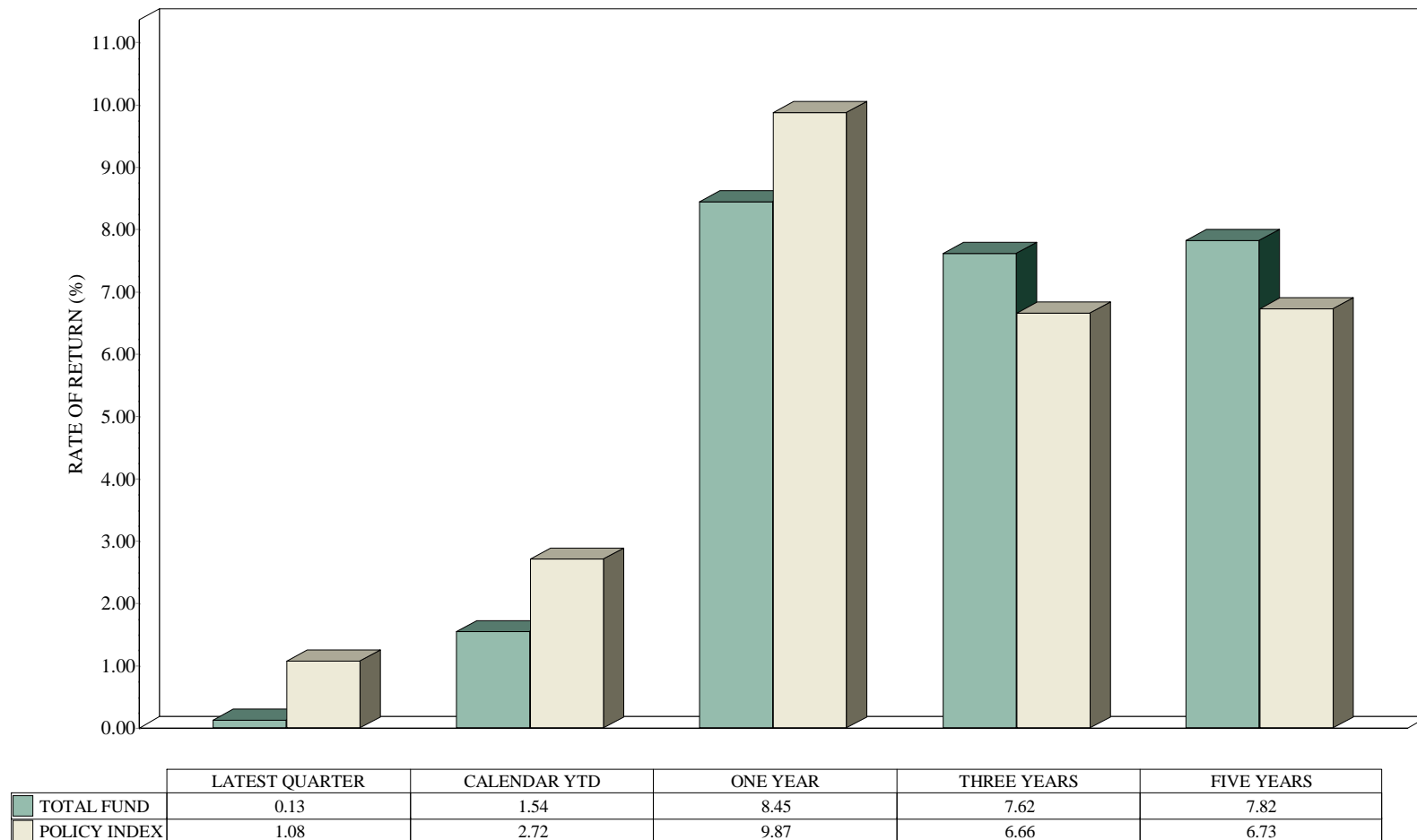
	LATEST QUARTER		CALENDAR YTD		ONE YEAR		THREE YEARS		FIVE YEARS	
HIGHEST VALUE		9.94		15.33		35.18		28.38		23.42
FIRST QUARTILE		8.09		12.23		29.08		23.90		19.08
MEDIAN VALUE		6.93		10.82		26.97		22.12		17.28
THIRD QUARTILE		6.03		9.88		25.45		20.95		15.57
LOWEST VALUE		4.42		7.94		20.88		18.33		13.78
MEAN		7.12		11.09		27.44		22.55		17.67
	LATEST QUARTER		CALENDAR YTD		ONE YEAR		THREE YEARS		FIVE YEARS	
	RETURN	RANK	RETURN	RANK	RETURN	RANK	RETURN	RANK	RETURN	RANK
▲ PRINCIPAL INTL STOCK	8.88	12	12.74	18	29.03	26	28.18	1	20.18	16
● MSCI NET EAFE	6.40	63	10.74	54	27.00	49	22.24	46	17.73	40

PRINCIPAL INTERNATIONAL STOCK
CAPITAL MARKET LINE - 5 YEARS

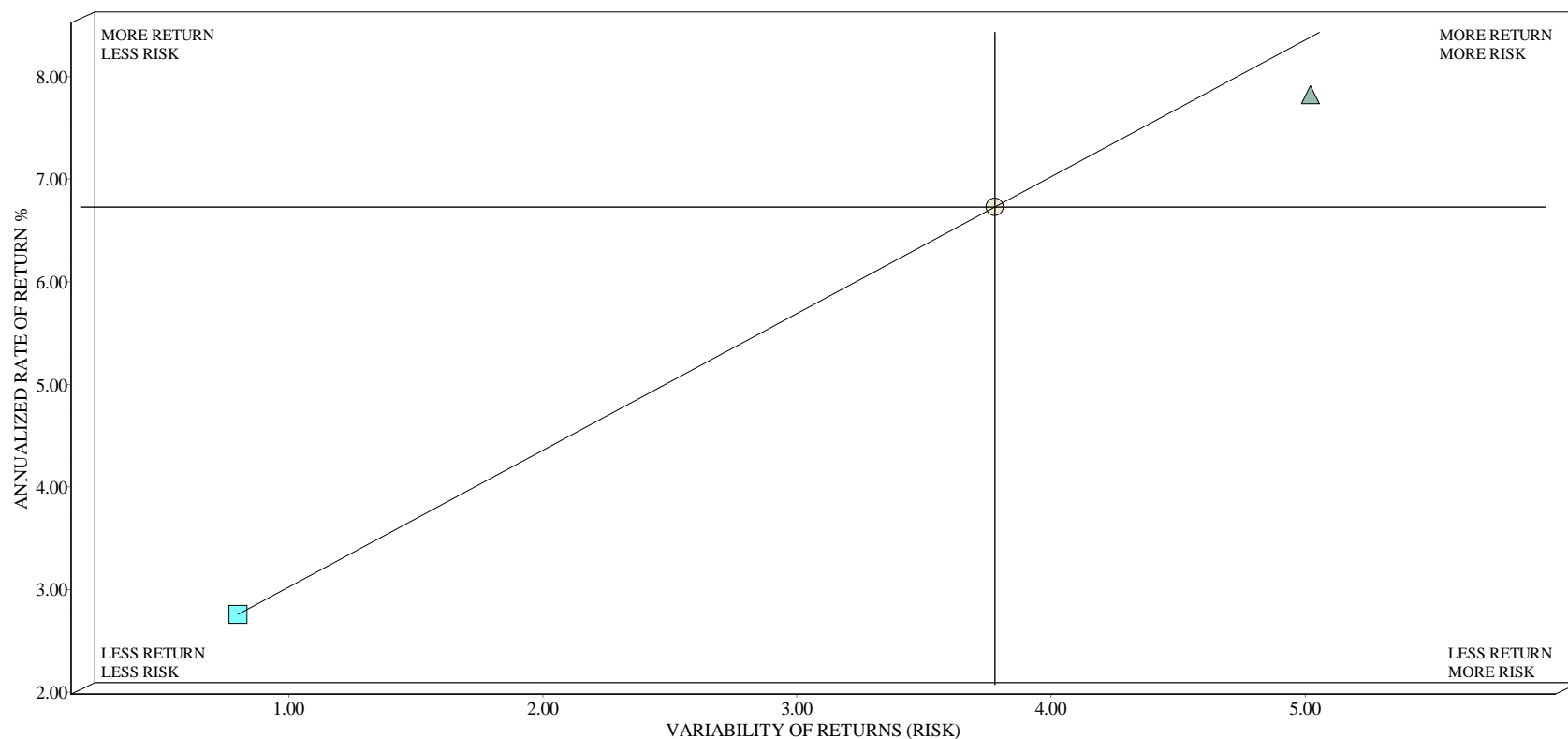


	RETURN	STD DEV	BETA	ALPHA	R-SQUARED
▲ TOTAL FUND	20.18	17.20	0.98	2.43	95.98
○ MSCI NET EAFE	17.73	17.11	1.00	0.00	100.00
■ 90 DAY U.S. T-BILL	2.75	0.80	1.00	0.00	100.00

**PRINCIPAL LIFETIME STRATEGIC INCOME
TIME-WEIGHTED RETURNS**

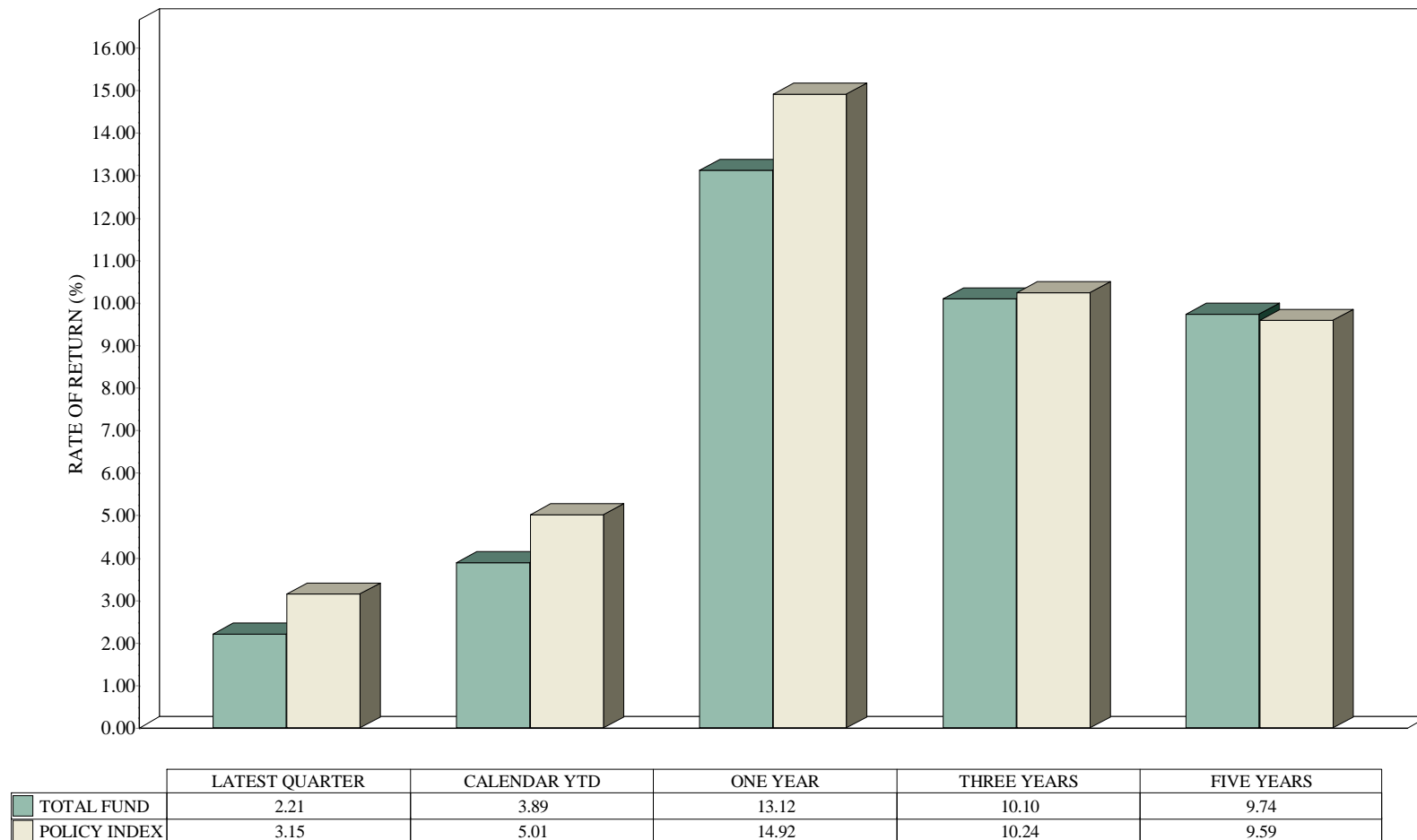


PRINCIPAL LIFETIME STRATEGIC INCOME
CAPITAL MARKET LINE - 5 YEARS

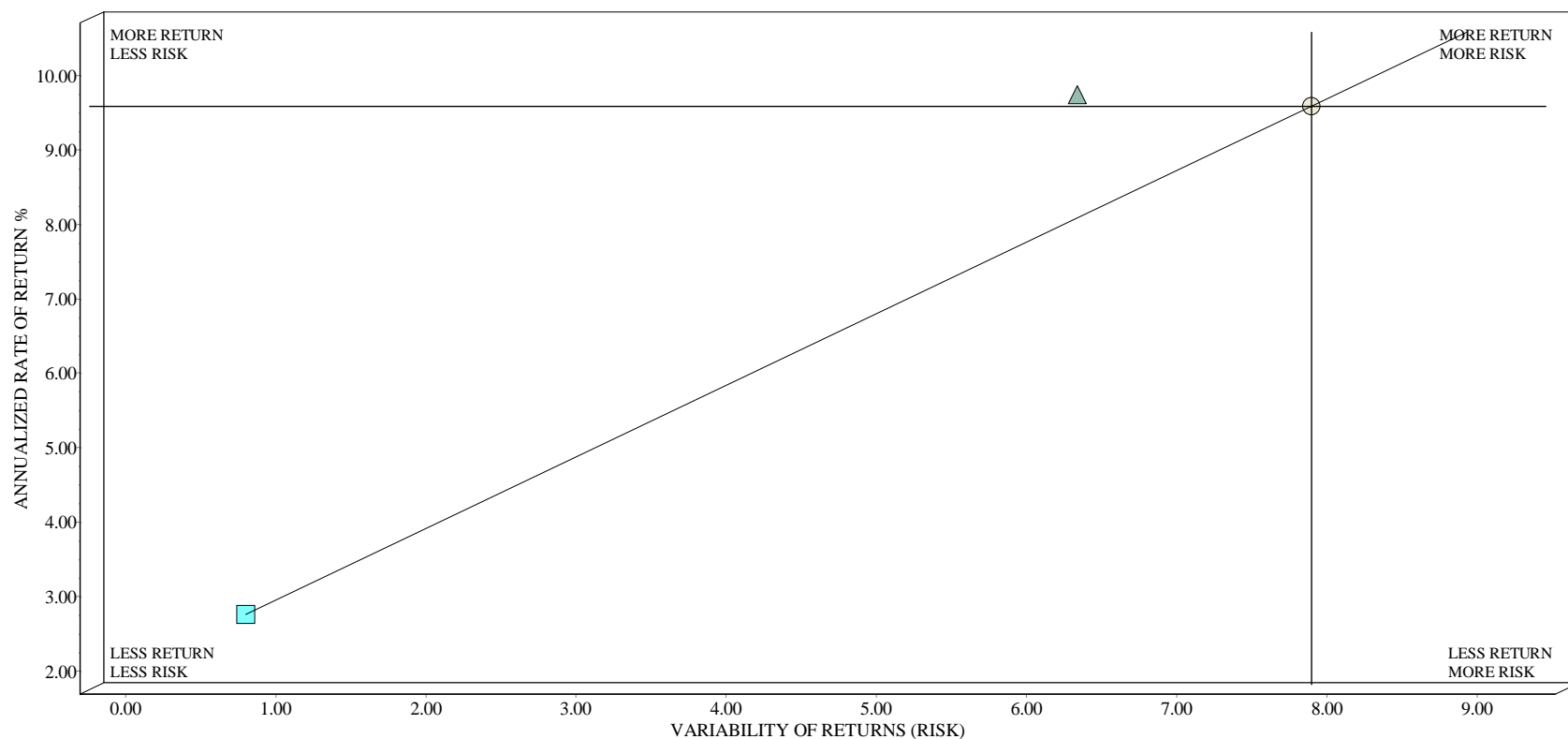


	RETURN	STD DEV	BETA	ALPHA	R-SQUARED
▲ TOTAL FUND	7.82	5.02	1.25	0.11	88.85
● POLICY INDEX	6.73	3.78	1.00	0.00	100.00
■ 90 DAY U.S. T-BILL	2.75	0.80	1.00	0.00	100.00

**PRINCIPAL LIFETIME 2010
TIME-WEIGHTED RETURNS**

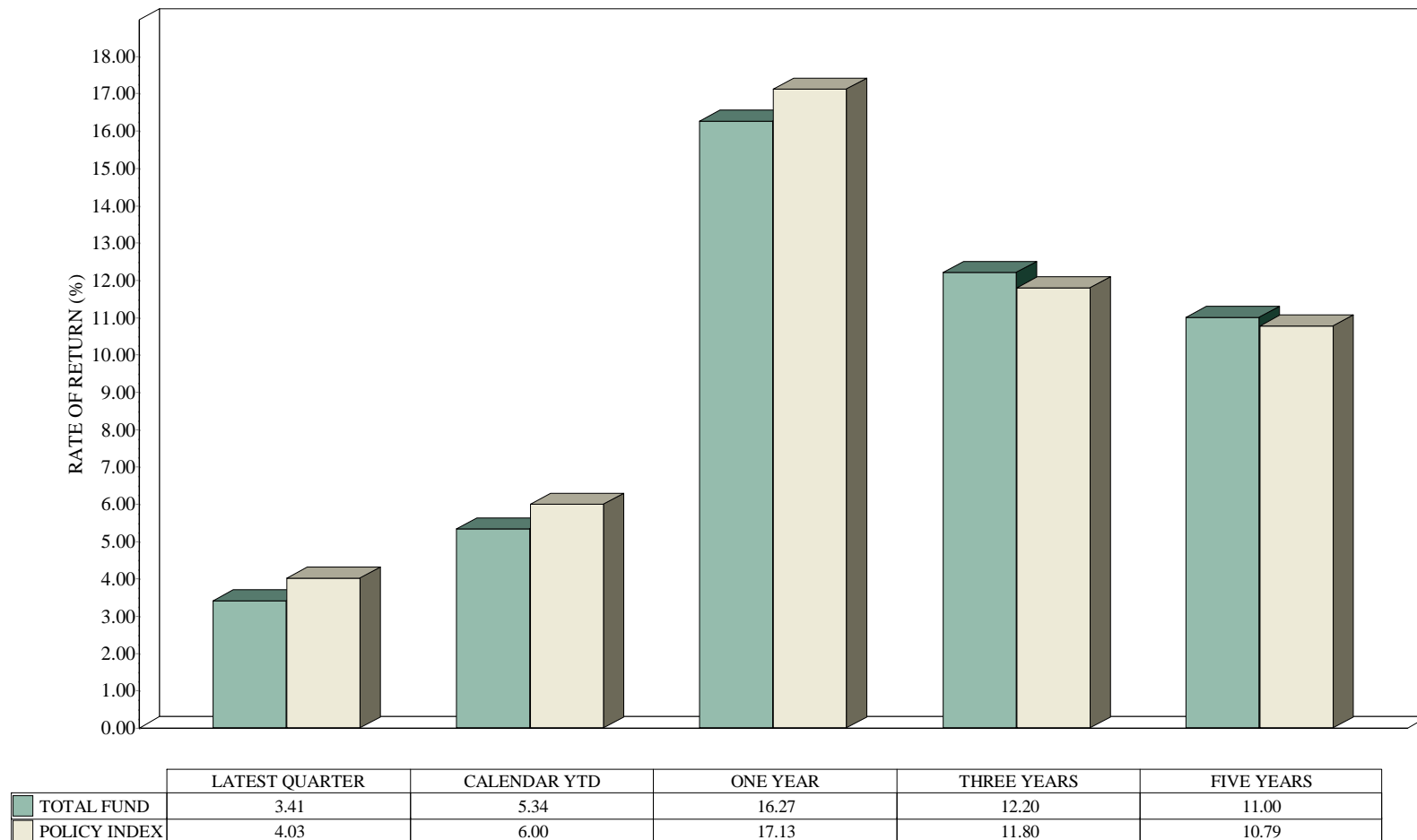


PRINCIPAL LIFETIME 2010
CAPITAL MARKET LINE - 5 YEARS

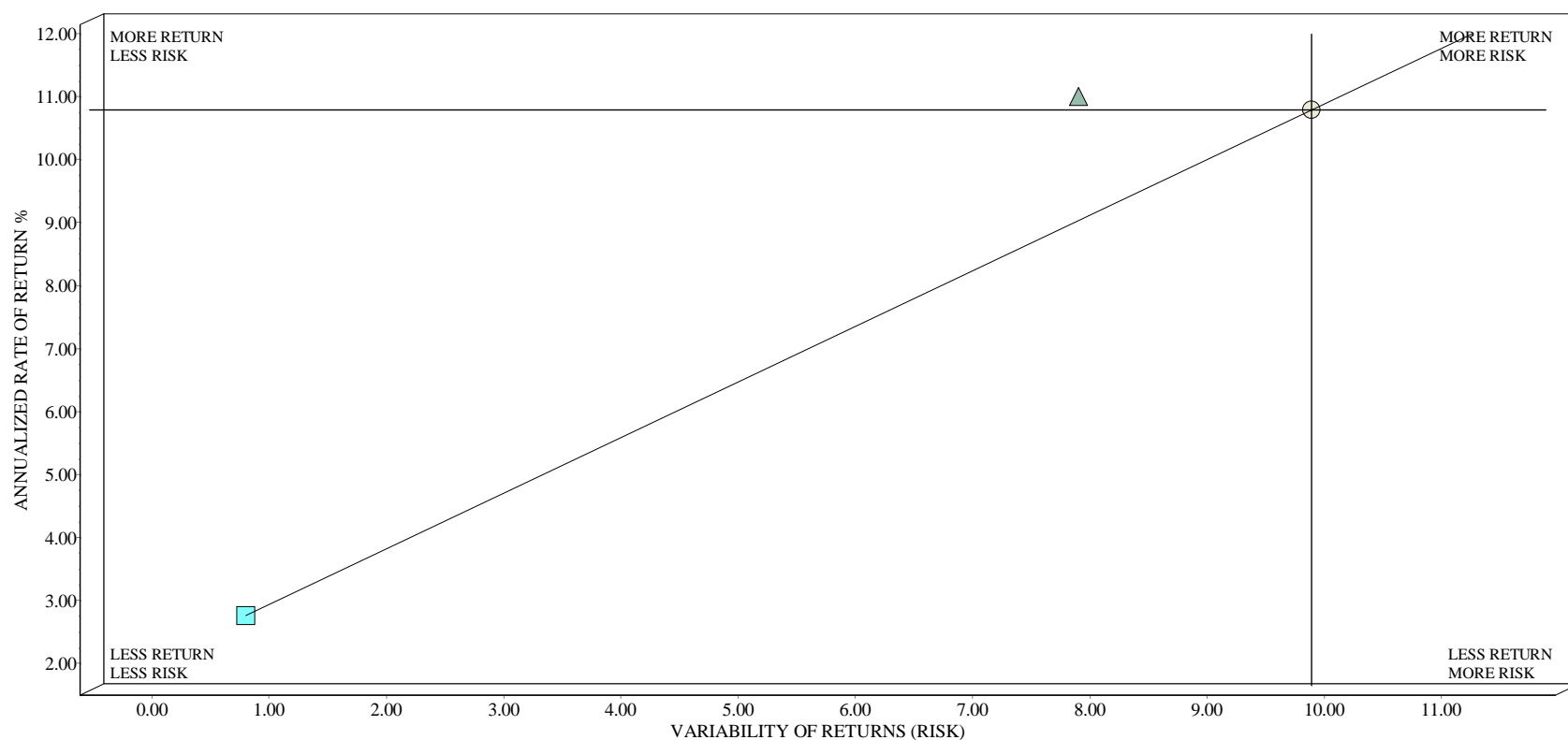


	RETURN	STD DEV	BETA	ALPHA	R-SQUARED
▲ TOTAL FUND	9.74	6.34	0.79	1.49	94.34
○ POLICY INDEX	9.59	7.90	1.00	0.00	100.00
■ 90 DAY U.S. T-BILL	2.75	0.80	1.00	0.00	100.00

**PRINCIPAL LIFETIME 2020
TIME-WEIGHTED RETURNS**

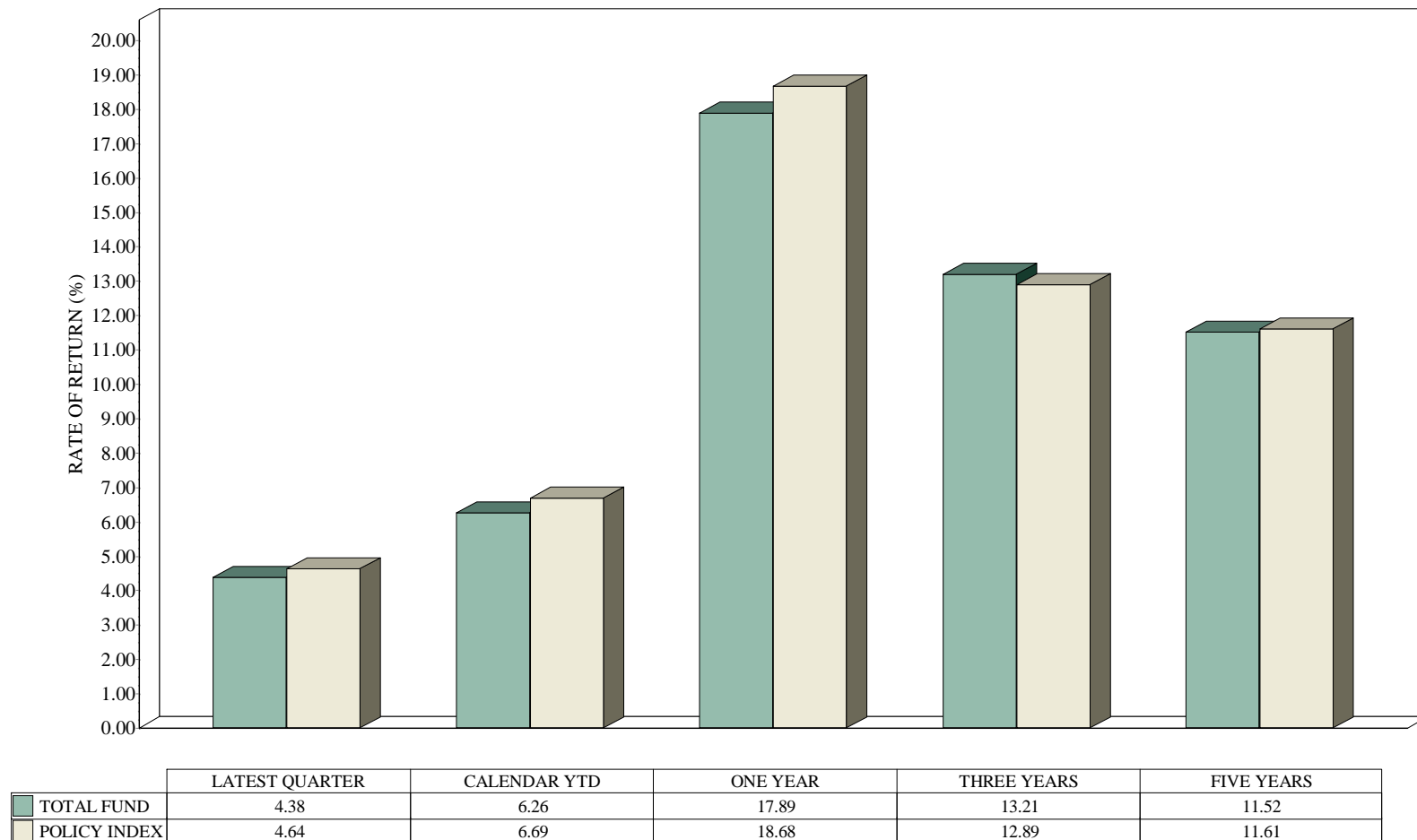


PRINCIPAL LIFETIME 2020
CAPITAL MARKET LINE - 5 YEARS

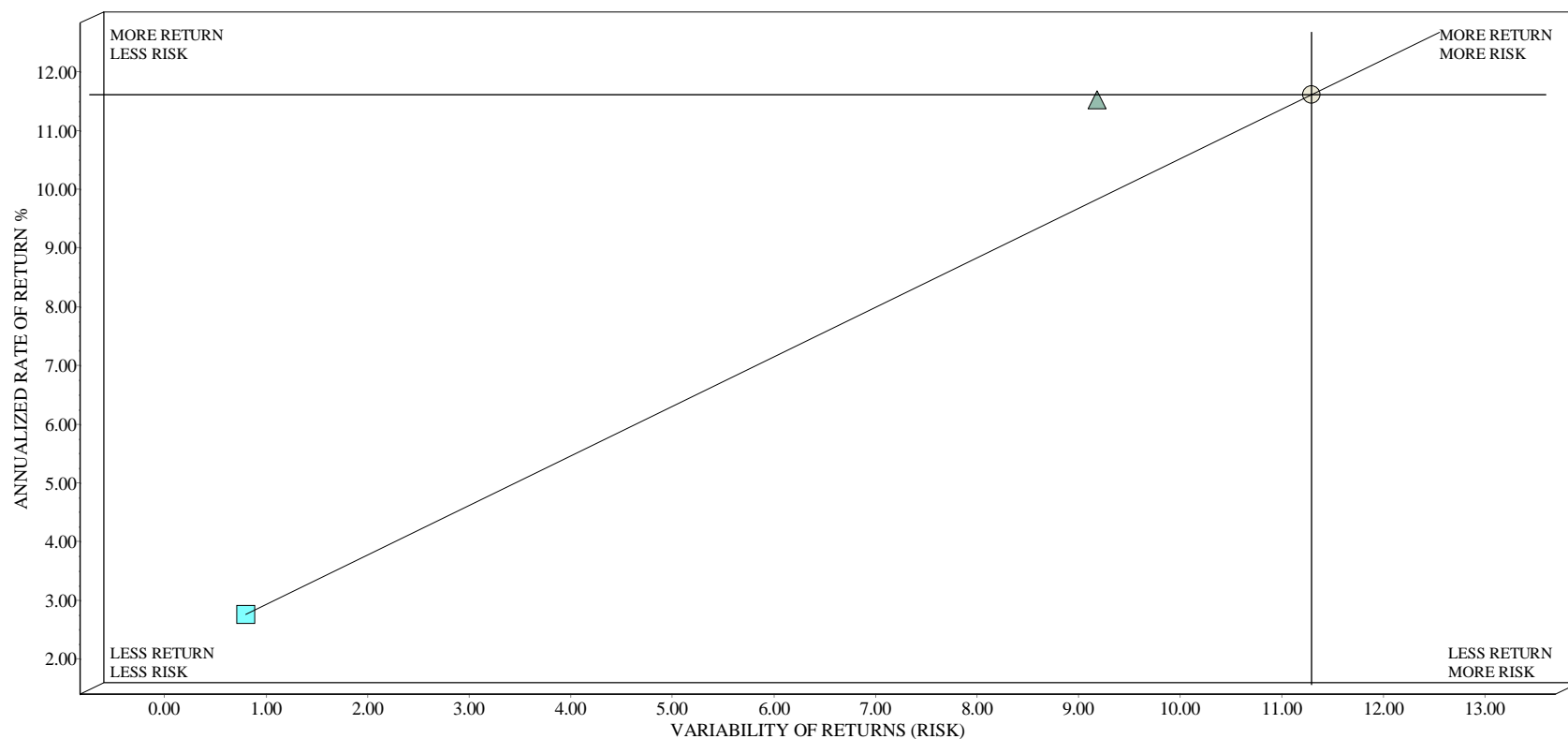


	RETURN	STD DEV	BETA	ALPHA	R-SQUARED
▲ TOTAL FUND	11.00	7.91	0.78	1.80	95.06
○ POLICY INDEX	10.79	9.89	1.00	0.00	100.00
■ 90 DAY U.S. T-BILL	2.75	0.80	1.00	0.00	100.00

**PRINCIPAL LIFETIME 2030
TIME-WEIGHTED RETURNS**

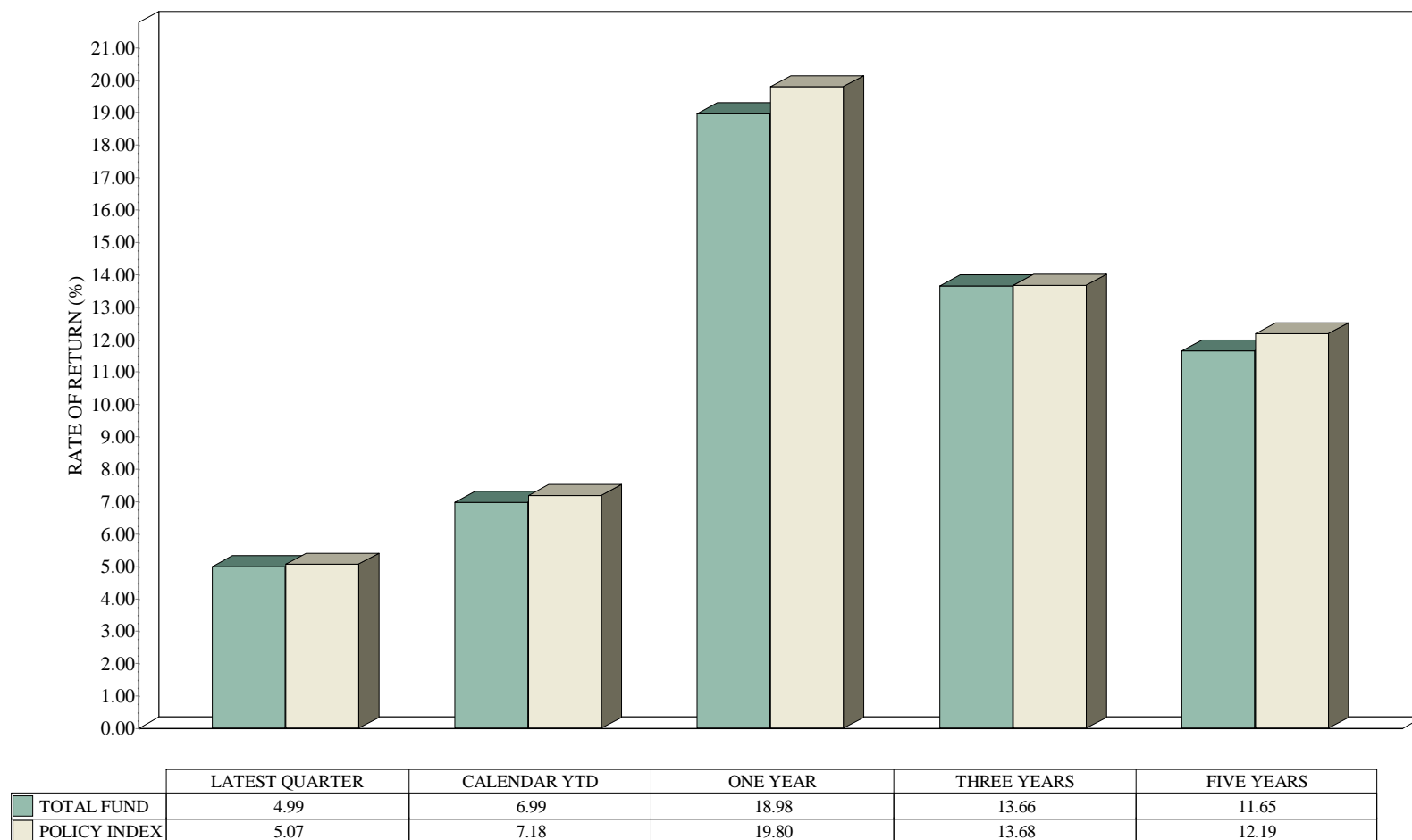


PRINCIPAL LIFETIME 2030
CAPITAL MARKET LINE - 5 YEARS

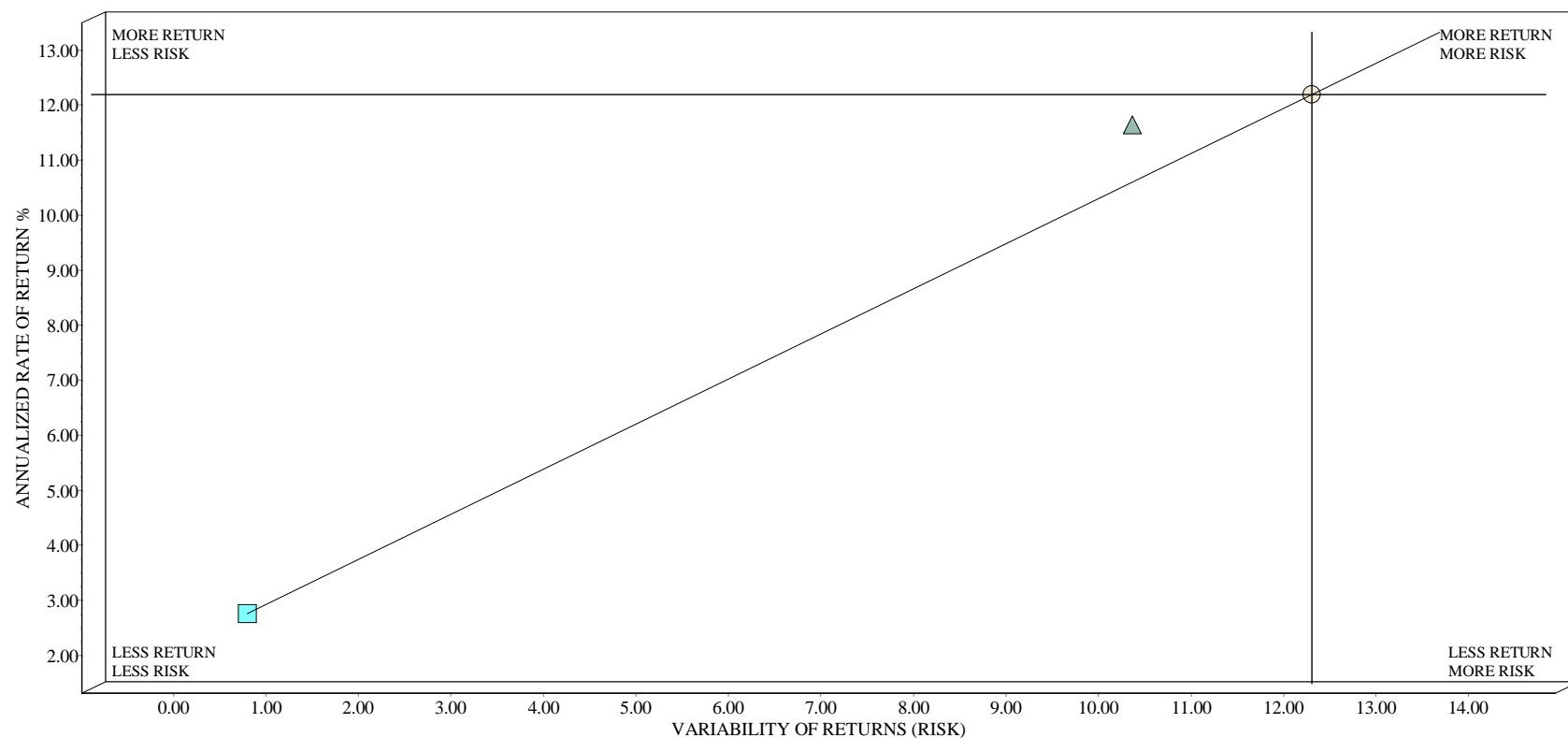


	RETURN	STD DEV	BETA	ALPHA	R-SQUARED
▲ TOTAL FUND	11.52	9.18	0.80	1.49	97.22
● POLICY INDEX	11.61	11.29	1.00	0.00	100.00
■ 90 DAY U.S. T-BILL	2.75	0.80	1.00	0.00	100.00

**PRINCIPAL LIFETIME 2040
TIME-WEIGHTED RETURNS**

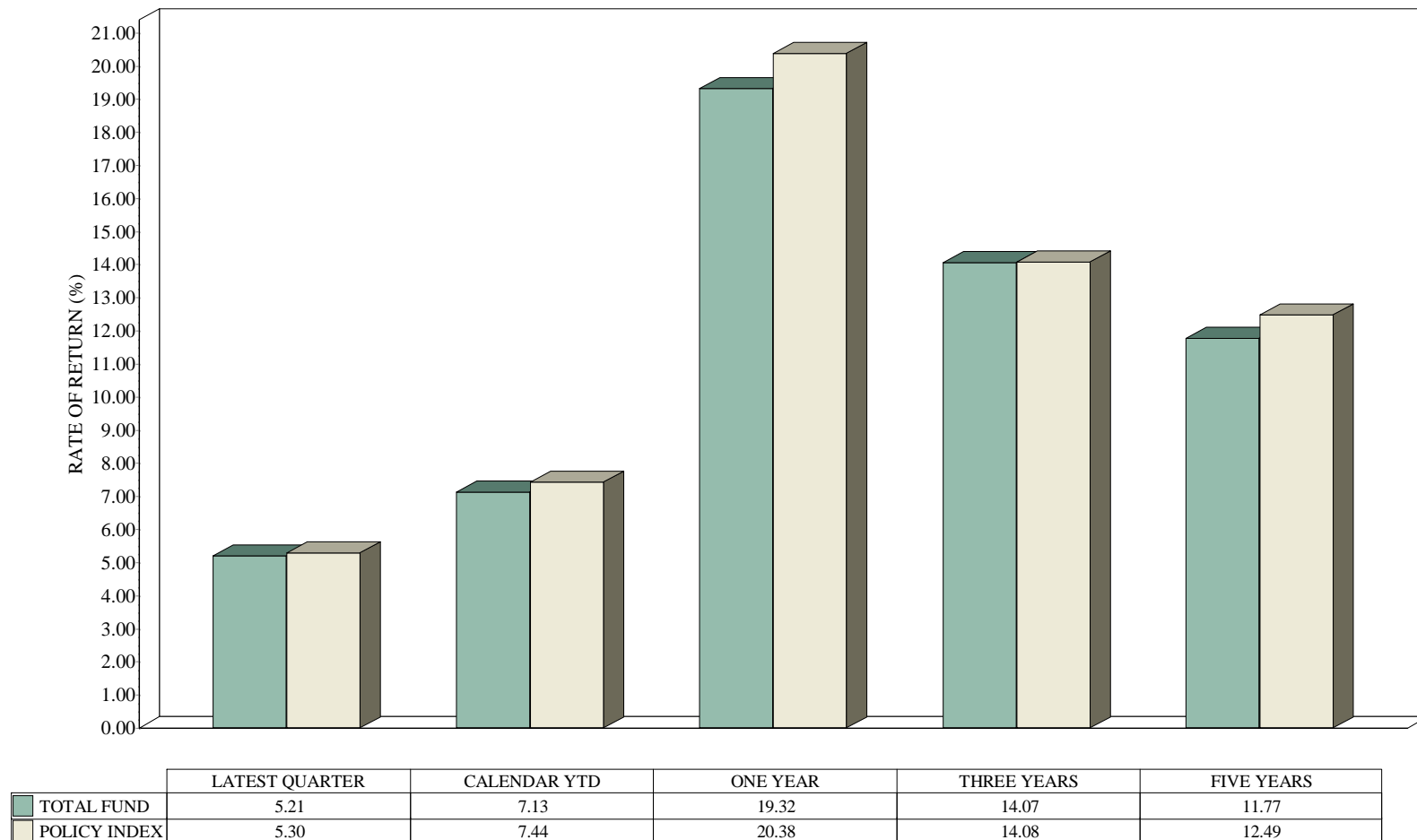


PRINCIPAL LIFETIME 2040
CAPITAL MARKET LINE - 5 YEARS

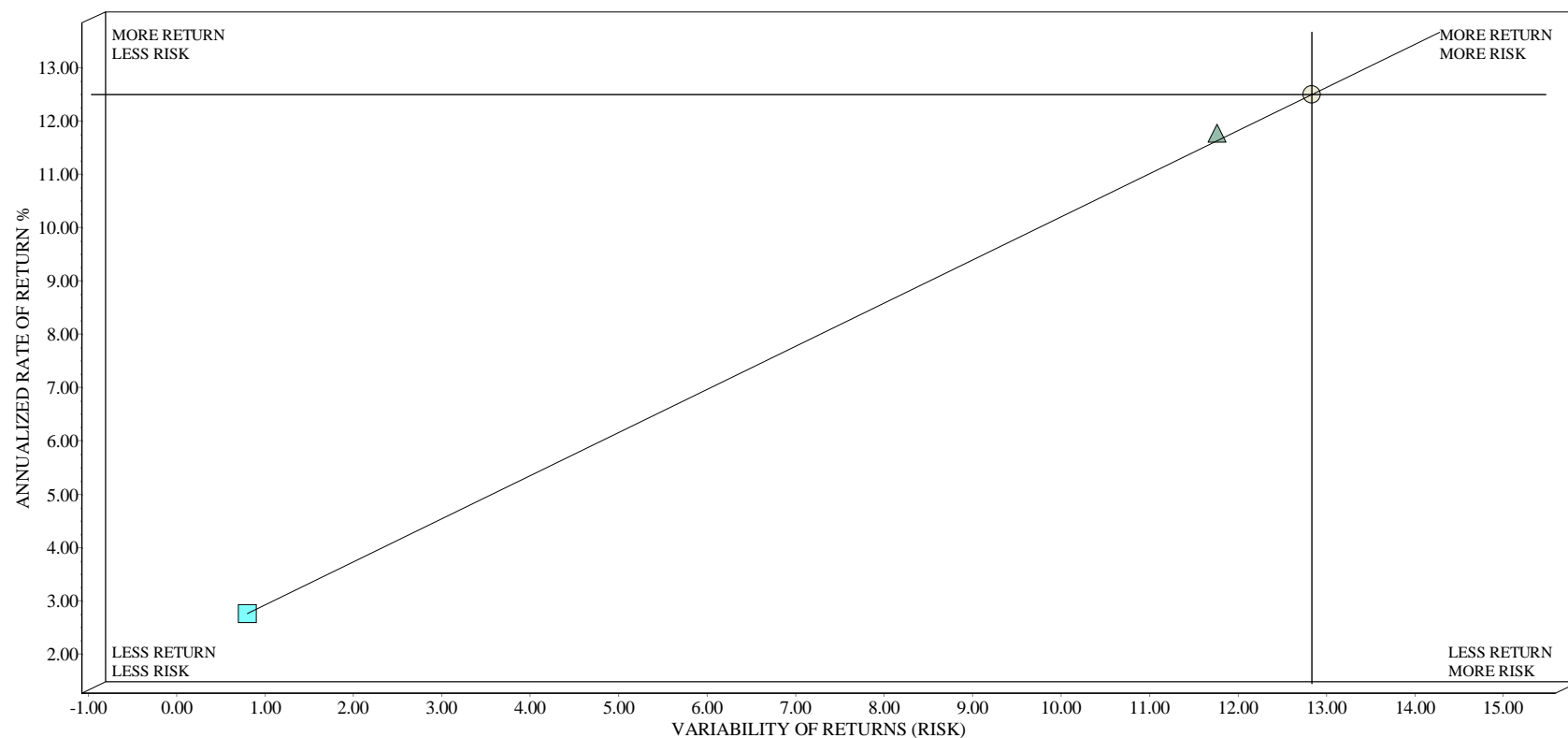


	RETURN	STD DEV	BETA	ALPHA	R-SQUARED
▲ TOTAL FUND	11.65	10.37	0.84	0.87	98.63
○ POLICY INDEX	12.19	12.31	1.00	0.00	100.00
■ 90 DAY U.S. T-BILL	2.75	0.80	1.00	0.00	100.00

**PRINCIPAL LIFETIME 2050
TIME-WEIGHTED RETURNS**



PRINCIPAL LIFETIME 2050
CAPITAL MARKET LINE - 5 YEARS



	RETURN	STD DEV	BETA	ALPHA	R-SQUARED
▲ TOTAL FUND	11.77	11.76	0.91	0.10	99.25
● POLICY INDEX	12.49	12.83	1.00	0.00	100.00
■ 90 DAY U.S. T-BILL	2.75	0.80	1.00	0.00	100.00

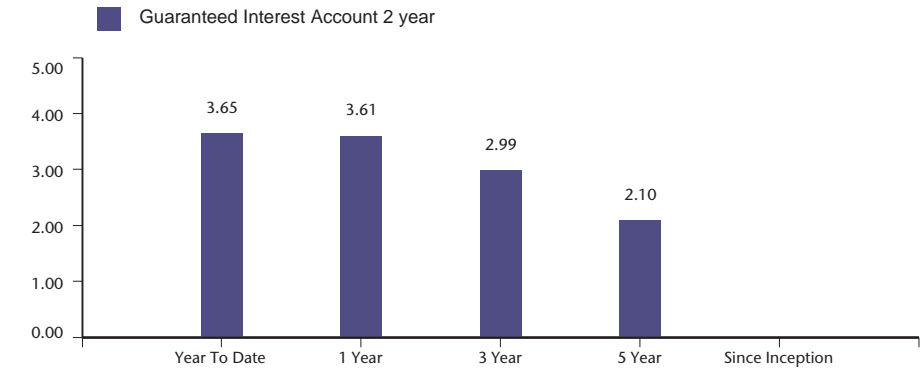
Guaranteed Interest Account 2 year as of 06/30/2007

Investment Strategy

The Guaranteed Interest Account gives you a guaranteed interest rate for a specific period of time as determined or allowed by your plan. The rate you get is set at the start of your plan's 12-month deposit year. Your benefit report shows your guaranteed interest rate. All deposits to your account during the deposit year get this rate. A new rate is set at the start of each deposit year.

A charge may apply to early withdrawals of transfer money from this account before the guarantee period ends. The surrender charge is a percentage of the amount withdrawn equal to: 1) the current rate minus your rate, multiplied by 2) the number of years and fractions left in your guarantee period. This charge applies only if the current rate for new deposits is higher than your account's guaranteed rate. Nor charge applies if you retire, die, end employment or become disabled.

Long-term returns % as of 06/30/2007



Performance disclosure

The crediting rate history and historical performance shown are based on past interest rates and do not guarantee future rates. Current rates may be lower or higher than the data shown. For more information, visit the Principal Sponsor Service Center *SM* or The Principal Retirement Service Center® at www.principal.com, contact your representative of The Principal, or call our Client Contact Center at 1-800-547-7754.

History	YTD	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
2 Year Full Rate Avg	3.65	3.59	2.72	1.25	0.51	1.81	3.23	5.76	5.04		

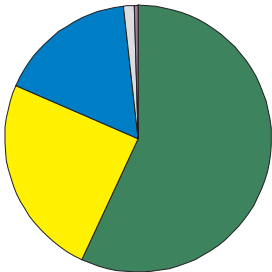
Guarantees are backed by all the assets in the Principal Life multi-billion dollar general account.

Operations

Total Net Assets (mil) \$32,433.72

Portfolio information

Composition as of 03/31/2007



% of Assets

U.S. Bonds	56.94
Other	24.60
Non-U.S. Bonds	16.62
Cash	1.27
Preferred	0.53

Portfolio composition

Full Ratings

Guaranteed Period	06/30 2007	03/31 2007	06/30 2006
2 Year Full Rate	3.90	3.50	4.05

Guaranteed rates for new deposits are subject to change daily

Financial Strength Ratings of the Principal Life Insurance Company

Moody's	Aa2
S&P	AA

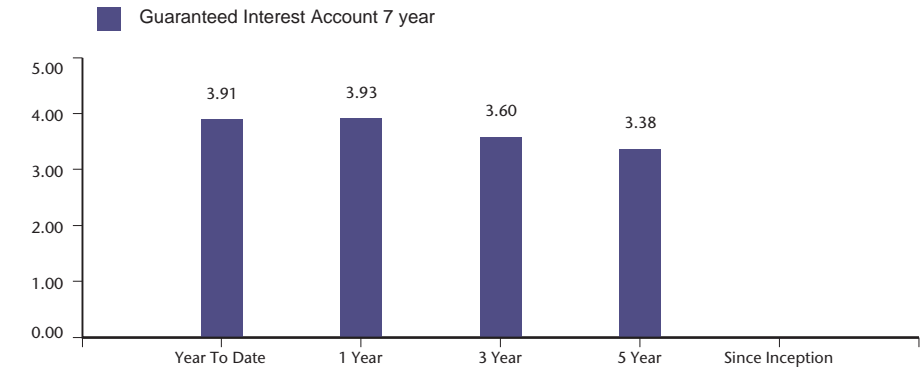
Guaranteed Interest Account 7 year as of 06/30/2007

Investment Strategy

The Guaranteed Interest Account gives you a guaranteed interest rate for a specific period of time as determined or allowed by your plan. The rate you get is set at the start of your plan's 12-month deposit year. Your benefit report shows your guaranteed interest rate. All deposits to your account during the deposit year get this rate. A new rate is set at the start of each deposit year.

A charge may apply to early withdrawals of transfer money from this account before the guarantee period ends. The surrender charge is a percentage of the amount withdrawn equal to: 1) the current rate minus your rate, multiplied by 2) the number of years and fractions left in your guarantee period. This charge applies only if the current rate for new deposits is higher than your account's guaranteed rate. Nor charge applies if you retire, die, end employment or become disabled.

Long-term returns % as of 06/30/2007



Performance disclosure

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History	YTD	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
7 Year Full Rate Avg	3.91	3.96	3.31	3.09	2.85	3.98	4.75	6.26	5.59		

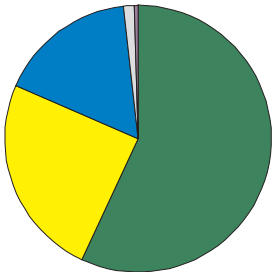
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Total Net Assets (mil) \$32,433.72

Portfolio information

Composition as of 03/31/2007



% of Assets

U.S. Bonds	56.94
Other	24.60
Non-U.S. Bonds	16.62
Cash	1.27
Preferred	0.53

Portfolio composition

Full Ratings

Guaranteed Period	06/30 2007	03/31 2007	06/30 2006
7 Year Full Rate	4.30	3.80	4.50

Guaranteed rates for new deposits are subject to change daily

Financial Strength Ratings of the Principal Life Insurance Company

Moody's	Aa2
S&P	AA

Money Market Separate Account-Stnd as of 06/30/2007

Investment Strategy

The investment seeks a high a level of current income consistent with preservation of principal and maintenance of liquidity. It invests in a portfolio of high quality, short-term money market instruments. The investments are U.S. dollar denominated securities which the sub-advisor believes present minimal credit risks. The sub-advisor maintains a dollar weighted average portfolio maturity of 90 days or less.

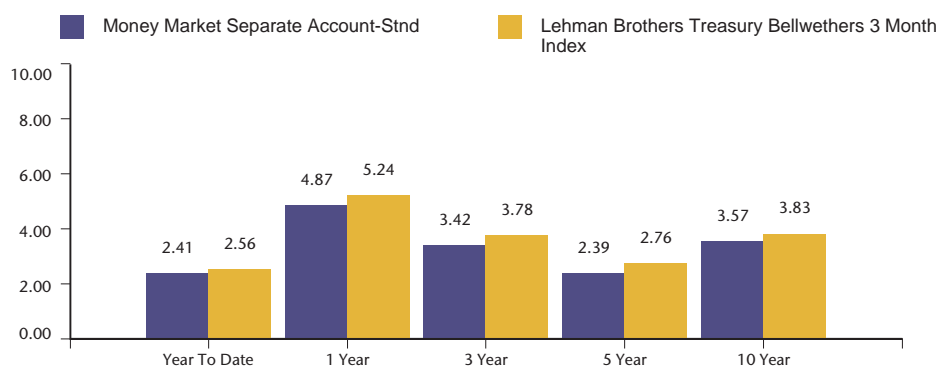


Portfolio managers

Alice B. Robertson Since 05/01/1999. Bachelor, Northwestern U

Tracy Reeg Since 08/31/2004. Bachelor, U of Northern Iowa

Long-term returns % as of 06/30/2007



Performance disclosure

Investment results shown represent historical performance and do not guarantee future results. Investment returns and principal values fluctuate with changes in interest rates and other market conditions so the value, when redeemed, may be worth more or less than original costs. Current performance may be lower or higher than the performance data shown. For more performance information, including most recent month-end performance, visit the Principal Sponsor Service Center SM or The Principal Retirement Service Center[®] at www.principal.com, contact your representative of The Principal, or call our Client Contact Center at 1-800-547-7754.

Long Term Returns	Year To Date	1 Year	3 Year	5 Year	10 Year
Total Return %	2.41	4.87	3.42	2.39	3.57
Lehman Brothers Treasury Bellwethers 3 Month Index %	2.56	5.24	3.78	2.76	3.83

Annual Returns	2006	2005	2004	2003	2002
Total Return %	4.55	2.72	0.87	0.76	1.45



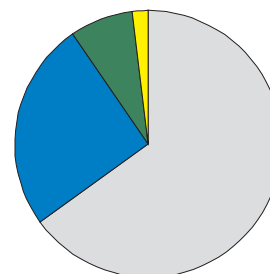
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Operations

Total Investment Expense Net	0.56%
Total Investment Expense Gross	0.56%
Inception Date	12/10/1980
Total Net Assets (mil)	\$3,888.27

Portfolio information

Composition as of 03/31/2007



% of Assets

Cash	64.99
Non-U.S. Bonds	25.46
U.S. Bonds	7.57
Other	1.98

Analysis

# of Stock Hldgs	0
# of Bond Hldgs	46
# of Other Hldgs	43

Portfolio composition

Top ten holdings

	% of net assets
Stanfield Victoria Funding Llc	2.55
Cafco Llc	2.36
Prudential Plc	2.27
Goldman Sachs Group Inc	1.92
Deere Capital Corp.	1.76
Whistlejacket Capital Llc	1.29
Calyon Finl Products Guernse ([Wts/Rts])	1.28
Scaldis Capital Llc	1.27
Inter Amern Dev Bank Disc	1.25
HSBC Bank USA Cayman Branch FRN	1.20
% of net assets in top ten holdings 17.15%	

Credit analysis

	% Bonds
A1+	74.00
A1	26.00
A2	0.00

Statistics

Avg Eff Maturity (Days)	117.04
7-Day Yield %	4.66

Money Market Separate Account-Stnd as of 06/30/2007



This retirement focused investment option was selected through the Principal Due Diligence ProgramSM, our rigorous and disciplined process for identifying, hiring, and retaining premier investment talent. This comprehensive investment review approach allows us to identify stable, well managed, investment management firms with premier talent and monitor these firms to identify any adverse changes in their organizations, investment processes, or performance results.

Returns shown for periods of less than one year are not annualized. All returns displayed here are after Total Investment Expense of the investment option. Annualized total returns measure net investment income and capital gain or loss from portfolio investments as an annualized average, assuming the reinvestment of dividends, and without adjusting for loads.

Insurance products and plan administrative services are provided by Principal Life Insurance Company. Principal Investors Fund is distributed by and securities are offered through Princor Financial Services Corporation, 800-247-4123, member SIPC. Princor and Principal Life are members of the Principal Financial Group®, Des Moines, IA 50392.

The 7-Day Yield % more closely reflects the current earnings of this money market investment option than the total return displayed.

This investment option is not guaranteed by the Federal Deposit Insurance Corporation (FDIC), or any other government agency.

Lehman Brothers Treasury Bellwethers 3 Month Index is composed of public obligations of the U. S. Treasury with a maturity of three months.

Bond and Mortgage Separate Account-Stnd as of 06/30/2007

Investment Strategy

The investment option invests primarily in intermediate-term, fixed-income investments such as public and private corporate bonds, commercial and residential mortgages, asset-backed securities, and US government and agency-backed securities. Value is added primarily through sector allocation and security selection. The Separate Account may enter into reverse repurchase agreements to attempt to enhance portfolio return and income.

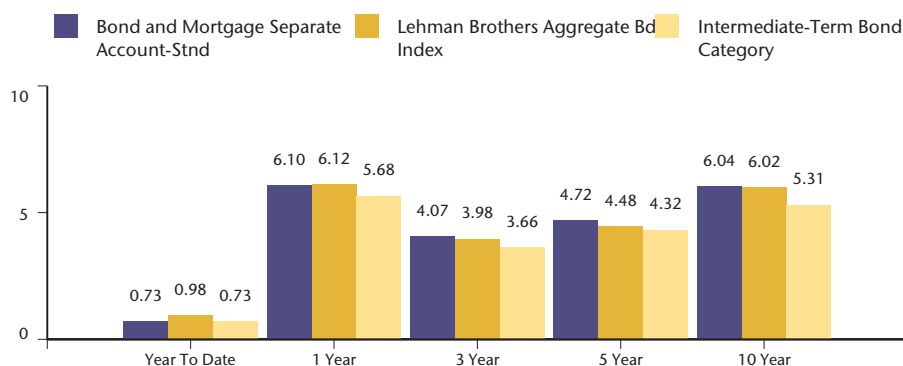


Portfolio managers

William Armstrong, CFA. Since 01/01/1997. Bachelor, Kearney State C

Timothy Warrick, CFA. Since 06/01/2002. M.B.A., Drake U

Long-term returns % as of 06/30/2007



Performance disclosure

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In situations where the net and gross total investment expense figures are different, the mutual fund or the underlying fund in which a Separate Account invests has waived/capped a portion of its management fees through the date displayed in the waiver expiration date or contractual cap expiration date column. Differences may also be shown due to the fund family choosing to pay certain expenses that would normally be payable by the fund. Returns displayed are based on net total investment expense.

Long Term Returns	Year To Date	1 Year	3 Year	5 Year	10 Year
Total Return %	0.73	6.10	4.07	4.72	6.04
Lehman Brothers Aggregate Bd Index %	0.98	6.12	3.98	4.48	6.02
Intermediate-Term Bond Category %	0.73	5.68	3.66	4.32	5.31
Morningstar Percentile Rankings	-	26	25	26	11
# of funds in category	1127	1088	965	796	404

Annual Returns	2006	2005	2004	2003	2002
Total Return %	4.56	2.48	4.85	5.04	9.73
Lehman Brothers Aggregate Bd Index %	4.33	2.43	4.34	4.10	10.25
Intermediate-Term Bond Category %	4.18	1.82	4.13	5.47	8.14
Morningstar Percentile Rankings	24	15	22	41	20
# of Funds in Category	1056	1001	931	846	749

Morningstar percentile rankings are based on total returns.

Morningstar category

Intermediate-Term Bond

Morningstar Style BoxTM

As of 03/31/2007

Duration			Quality
Short	Int	Long	
			High
			Medium
			Low

Risk and Return Statistics

as of 06/30/2007 Relative to
Lehman Brothers Aggregate Bd Index

	3Yr	5Yr
Alpha	0.08	0.24
Beta	0.98	0.99
R-Squared	98.19	98.66
Standard Deviation	2.83	3.70
Mean	4.07	4.72
Sharpe Ratio	0.04	0.50
Excess Risk	0.40	0.44
Information Ratio	0.21	0.55

Operations

Total Investment Expense Net	0.71%
Total Investment Expense Gross	0.71%
Inception Date	02/01/1983
Total Net Assets (mil)	\$6,522.57



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Bond and Mortgage Separate Account-Stdnd as of 06/30/2007

Portfolio information

Composition as of 03/31/2007



Credit Analysis

	% Bonds
AAA	57.22
AA	6.43
A	10.33
BBB	15.37
BB	5.39
B	4.69
Below B	0.57
Not Rated	0.00

Statistics

Avg Eff Duration (Yrs)	4.80
Avg Eff Maturity (Yrs)	8.00
Avg Credit Quality	AA
Avg Weighted Coupon	5.17
Avg Weighted Price	101.94



This retirement focused investment option was selected through the Principal Due Diligence ProgramSM, our rigorous and disciplined process for identifying, hiring, and retaining premier investment talent. This comprehensive investment review approach allows us to identify stable, well managed, investment management firms with premier talent and monitor these firms to identify any adverse changes in their organizations, investment processes, or performance results.

Separate Accounts are available through a group annuity contract with the Principal Life Insurance Company. Insurance products and plan administrative services are provided by Principal Life Insurance Company a member of the Principal Financial Group, Des Moines, IA 50392. See the group annuity contract for the full name of the Separate Account. Certain Separate Accounts may not be available in all states.

The full name of this investment option is Principal Bond and Mortgage Separate Account-Standard.

Lehman Brothers Aggregate Bd Index represents securities that are U. S., domestic, taxable, and dollar denominated. The index covers the U. S. investment grade fixed rate bond market, with index components for government and corporate securities, mortgage pass-through securities, and asset-backed securities. These major sectors are subdivided into more specific indices that are calculated and reported on a regular basis.

Alpha - The difference between an investment's actual returns and its expected performance, given its level of risk (as measured by beta). **Beta** - An investment's sensitivity to market movements. **R-squared** - Ranges from 0 to 100 and reveals how closely an investment's returns track those of a benchmark index. **Standard Deviation** - Measures how much an investment's returns are likely to fluctuate. **Mean** - Represents the annualized total return for a fund over 3 years. **Sharpe Ratio** - Measures how an investment balances risks and rewards. The higher the Sharpe ratio, the better the investment's historical risk-adjusted performance. **Excess Return** - The difference between a manager's return and the return of an external standard such as a passive index. **Excess Risk** - The standard deviation or volatility of excess returns. **Information Ratio** - A risk-adjusted measure commonly used to evaluate an active manager's involvement skill. It's defined as the manager's excess return divided by the variability or standard deviation of the excess return.

Stock Emphasis Balanced Separate Account-Stnd as of 06/30/2007

Investment Strategy

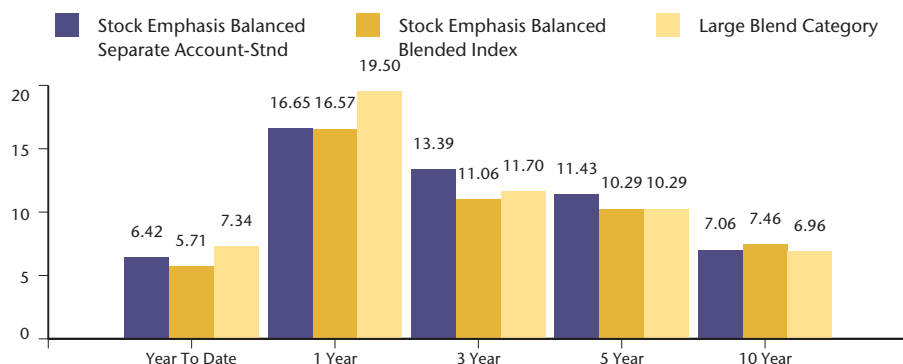
The investment option primarily invests in other Separate Accounts offered by The Principal. It usually maintains at least 50% of assets in common stocks.

Investment Advisor: Principal Financial Advisors

Portfolio managers

Management Team

Long-term returns % as of 06/30/2007



Performance disclosure

Investment results shown represent historical performance and do not guarantee future results. Investment returns and principal values fluctuate with changes in interest rates and other market conditions so the value, when redeemed, may be worth more or less than original costs. Current performance may be lower or higher than the performance data shown. For more performance information, including the most recent month-end performance, visit the Principal Sponsor Service CenterSM or The Principal Retirement Service Center[®] at www.principal.com, contact your representative of The Principal, or call our Client Contact Center at 1-800-547-7754.

In situations where the net and gross total investment expense figures are different, the mutual fund or the underlying fund in which a Separate Account invests has waived/capped a portion of its management fees through the date displayed in the waiver expiration date or contractual cap expiration date column. Differences may also be shown due to the fund family choosing to pay certain expenses that would normally be payable by the fund. Returns displayed are based on net total investment expense.

Long Term Returns	Year To Date	1 Year	3 Year	5 Year	10 Year
Total Return %	6.42	16.65	13.39	11.43	7.06
Stock Emphasis Balanced Blended Index %	5.71	16.57	11.06	10.29	7.46
Large Blend Category %	7.34	19.50	11.70	10.29	6.96
Morningstar Percentile Rankings	-	85	21	24	37
# of funds in category	2152	2035	1598	1237	527

Annual Returns	2006	2005	2004	2003	2002
Total Return %	14.59	10.20	11.92	24.13	-13.20
Stock Emphasis Balanced Blended Index %	13.45	5.98	10.65	23.42	-11.82
Large Blend Category %	14.26	6.14	10.53	27.95	-21.00
Morningstar Percentile Rankings	47	11	29	79	6
# of Funds in Category	1916	1685	1503	1327	1163

Morningstar percentile rankings are based on total returns.

Morningstar category

Large Blend

Morningstar Style Box™

As of 03/31/2007

Investment style

Value	Blend	Growth	
			Large
			Medium
			Small

Risk and Return Statistics

as of 06/30/2007 Relative to
Stock Emphasis Balanced Blended Index

	3Yr	5Yr
Alpha	1.05	0.95
Beta	1.17	1.01
R-Squared	92.59	93.54
Standard Deviation	6.57	8.39
Mean	13.38	11.43
Sharpe Ratio	1.36	1.00
Excess Return	2.34	1.07
Excess Risk	2.00	2.13
Information Ratio	1.17	0.50

Operations

Total Investment Expense Net	0.78%
Total Investment Expense Gross	0.78%
Inception Date	10/01/1993
Total Net Assets (mil)	\$671.57



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Stock Emphasis Balanced Separate Account-Stnd as of 06/30/2007

Portfolio information

Composition as of 03/31/2007



Stock Sector Breakdown

Information	% of net assets	Service	% of net assets	Manufacturing	% of net assets
Software	2.25	Healthcare	11.44	Consumer Goods	10.48
Hardware	7.31	Consumer Services	8.19	Industrial Materials	10.72
Media	2.53	Business Services	7.26	Energy	8.56
Telecom	4.00	Financial Services	23.78	Utilities	3.49



This retirement focused investment option was selected through the Principal Due Diligence ProgramSM, our rigorous and disciplined process for identifying, hiring, and retaining premier investment talent. This comprehensive investment review approach allows us to identify stable, well managed, investment management firms with premier talent and monitor these firms to identify any adverse changes in their organizations, investment processes, or performance results.

Separate Accounts are available through a group annuity contract with the Principal Life Insurance Company. Insurance products and plan administrative services are provided by Principal Life Insurance Company a member of the Principal Financial Group, Des Moines, IA 50392. See the group annuity contract for the full name of the Separate Account. Certain Separate Accounts may not be available in all states.

The full name of this investment option is Principal Stock Emphasis Balanced Separate Account-Stnd.

Stock Emphasis Balanced Blended Index is composed of 58% Russell 3000 Index, 12% EAFE Index, and 30% Lehman Aggregate Index.

Alpha - The difference between an investment's actual returns and its expected performance, given its level of risk (as measured by beta). **Beta** - An investment's sensitivity to market movements. **R-squared** - Ranges from 0 to 100 and reveals how closely an investment's returns track those of a benchmark index. **Standard Deviation** - Measures how much an investment's returns are likely to fluctuate. **Mean** - Represents the annualized total return for a fund over 3 years. **Sharpe Ratio** - Measures how an investment balances risks and rewards. The higher the Sharpe ratio, the better the investment's historical risk-adjusted performance. **Excess Return** - The difference between a manager's return and the return of an external standard such as a passive index. **Excess Risk** - The standard deviation or volatility of excess returns. **Information Ratio** - A risk-adjusted measure commonly used to evaluate an active manager's involvement skill. It's defined as the manager's excess return divided by the variability or standard deviation of the excess return.

Asset allocation does not guarantee a profit or protect against a loss. Investing in real estate, small-cap, international, and high-yield investment options involves additional risks.

Vanguard Windsor II Fund as of 06/30/2007

Investment Strategy

The investment seeks long-term capital appreciation and income. The fund invests mainly in large- and mid-capitalization companies whose stocks are considered to be undervalued.



Vanguard

Portfolio managers

James P. Barrow Since 06/24/1985. B.S., U of South Carolina

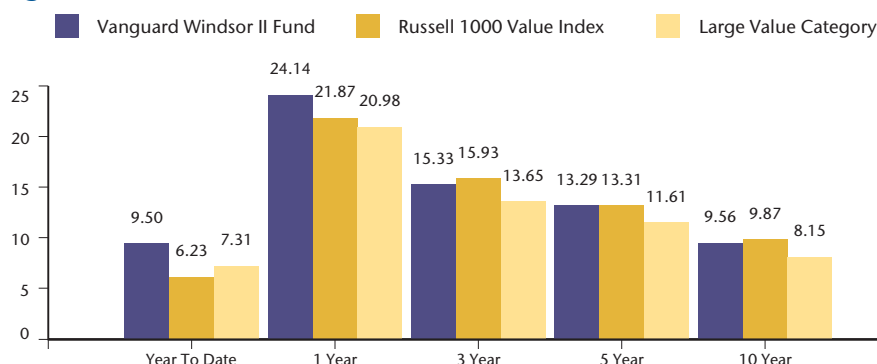
George Davis Since 12/11/2003. M.B.A., Stanford U

Sheldon J. Lieberman Since 12/11/2003. M.B.A., California State U

Jeffrey Shaw Since 01/04/2006. B.A., Princeton U

James Troyer, CFA. Since 02/28/2006. A.B., C of Occidental

Long-term returns % as of 06/30/2007



Performance disclosure

Investment results shown represent historical performance and do not guarantee future results. Investment returns and principal values fluctuate with changes in interest rates and other market conditions so the value, when redeemed, may be worth more or less than original costs. Current performance may be lower or higher than the performance data shown. For more performance information, including the most recent month-end performance, visit the Principal Sponsor Service CenterSM or The Principal Retirement Service Center[®] at www.principal.com, contact your representative of The Principal, or call our Client Contact Center at 1-800-547-7754.

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Long Term Returns	Year To Date	1 Year	3 Year	5 Year	10 Year
Total Return %	9.50	24.14	15.33	13.29	9.56
Russell 1000 Value Index %	6.23	21.87	15.93	13.31	9.87
Large Value Category %	7.31	20.98	13.65	11.61	8.15
Morningstar Percentile Rankings	-	10	21	16	20
# of funds in category	1424	1346	1099	830	392

Annual Returns	2006	2005	2004	2003	2002
Total Return %	18.25	7.01	18.31	30.08	-16.86
Russell 1000 Value Index %	22.25	7.05	16.49	30.03	-15.52
Large Value Category %	18.25	5.86	13.21	28.69	-17.97
Morningstar Percentile Rankings	51	32	7	32	43
# of Funds in Category	1288	1169	1046	915	769

Morningstar percentile rankings are based on total returns.

Morningstar category

Large Value

Morningstar Style Box™

As of 03/31/2007

Investment style

Value	Blend	Growth	
			Large
			Medium
			Small

Market capitalization

Risk and Return Statistics

as of 06/30/2007 Relative to Russell 1000 Value Index

	3Yr	5Yr
Alpha	0.55	0.76
Beta	0.90	0.92
R-Squared	91.29	93.84
Standard Deviation	6.68	11.24
Mean	15.33	13.29
Sharpe Ratio	1.60	0.92
Excess Return	-0.61	-0.02
Excess Risk	2.08	2.95
Information Ratio	-0.29	-0.01

Operations

Total Investment Expense Net	0.34%
Total Investment Expense Gross	0.34%
Inception Date	06/24/1985
Total Net Assets (mil)	\$54,108.78
12b-1 Fees	-
Ticker	VWNFX



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Vanguard Windsor II Fund as of 06/30/2007

Portfolio information

Composition as of 03/31/2007



Stock Sector Breakdown

Information	% of net assets	Service	% of net assets	Manufacturing	% of net assets
Software	12.93	Healthcare	44.22	Consumer Goods	11.14
Hardware	1.93	Consumer Services	12.53	Industrial Materials	13.31
Media	3.59	Business Services	4.65	Energy	9.44
Telecom	1.59	Financial Services	1.38	Utilities	8.95
	5.82		25.66		

Access Funds consist of an assortment of mutual funds from some of the premier names in the mutual fund industry. These investment options provide for additional choice to supplement the Foundation Options we offer through the Principal Due Diligence ProgramSM.

Returns shown for periods of less than one year are not annualized. Annualized total returns measure net investment income and capital gain or loss from portfolio investments as an annualized average, assuming the reinvestment of dividends, and without adjusting for loads.

Insurance products and plan administrative services are provided by Principal Life Insurance Company. Securities are offered through Princor Financial Services Corporation, 800-247-4123, member SIPC. Princor and Principal Life are members of the Principal Financial Group®, Des Moines, IA 50392.

Before investing in mutual funds, investors should carefully consider the investment objectives, risks, charges and expenses of the funds. This and other information is contained in the free prospectus, which can be obtained from your local representative, by visiting www.principal.com, or by contacting us at 1-800-547-7754. Please read the prospectus carefully before investing.

Russell 1000 Value Index is a market-capitalization weighted index of those firms in the Russell 1000 with lower price-to-book ratios and lower forecasted growth values.

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Large-Cap Stock Index Separate Account-Stnd as of 06/30/2007

Investment Strategy

The investment option normally invests the majority of assets in common stocks of companies that compose the S&P 500 Index. Management attempts to mirror the investment performance of the index by allocating assets in approximately the same weightings as the S&P 500 Index. Over the long-term, management seeks a very close correlation between the performance of the Separate Account before expenses and that of the S&P 500 Index.

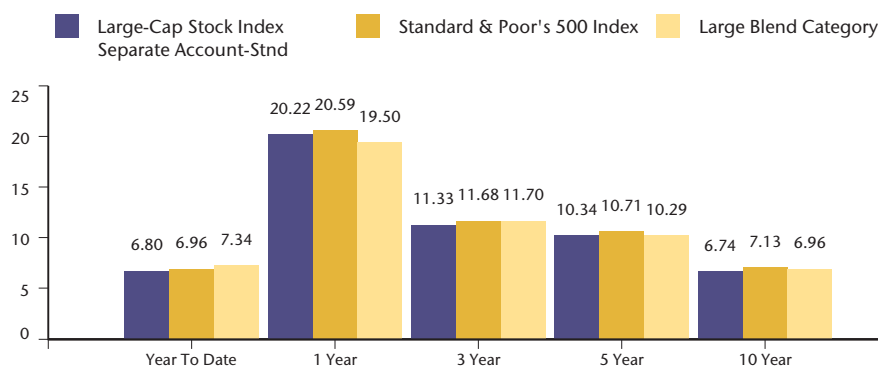


Portfolio managers

Dirk Laschanzky, CFA. Since 10/01/2003. M.B.A., U of Iowa

Mariateresa Monaco, CFA. Since 09/01/2005. Master, Northeastern U

Long-term returns % as of 06/30/2007



Performance disclosure

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Long Term Returns	Year To Date	1 Year	3 Year	5 Year	10 Year
Total Return %	6.80	20.22	11.33	10.34	6.74
Standard & Poor's 500 Index %	6.96	20.59	11.68	10.71	7.13
Large Blend Category %	7.34	19.50	11.70	10.29	6.96
Morningstar Percentile Rankings	-	35	53	45	50
# of funds in category	2152	2035	1598	1237	527

Annual Returns	2006	2005	2004	2003	2002
Total Return %	15.46	4.58	10.49	28.18	-22.38
Standard & Poor's 500 Index %	15.79	4.91	10.88	28.68	-22.10
Large Blend Category %	14.26	6.14	10.53	27.95	-21.00
Morningstar Percentile Rankings	30	66	50	42	59
# of Funds in Category	1916	1685	1503	1327	1163

Morningstar percentile rankings are based on total returns.

Morningstar category

Large Blend

Morningstar Style BoxTM

As of 03/31/2007

Investment style			Market capitalization
Value	Blend	Growth	
			Large
			Medium
			Small

Risk and Return Statistics

as of 06/30/2007 Relative to Standard & Poor's 500 Index

	3Yr	5Yr
Alpha	-0.30	-0.33
Beta	1.00	1.00
R-Squared	100.00	100.00
Standard Deviation	7.39	11.57
Mean	11.34	10.34
Sharpe Ratio	0.97	0.67
Excess Return	-0.34	-0.37
Excess Risk	0.03	0.03
Information Ratio	-11.77	-12.48

Operations

Total Investment Expense Net	0.31 %
Total Investment Expense Gross	0.31 %
Inception Date	01/01/1990
Total Net Assets (mil)	\$6,706.73

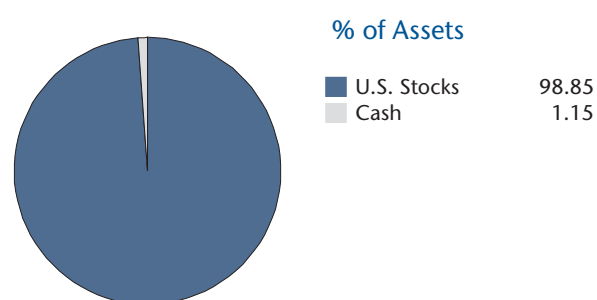


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Large-Cap Stock Index Separate Account-Stdnd as of 06/30/2007

Portfolio information

Composition as of 03/31/2007



Top ten holdings

	% of net assets
1. ExxonMobil Corporation	3.35
2. General Electric Company	2.83
3. Citigroup, Inc.	1.96
4. AT&T, Inc.	1.92
5. Microsoft Corporation	1.87
6. Bank of America Corporation	1.78
7. Procter & Gamble Company	1.55
8. Altria Group, Inc.	1.44
9. Pfizer Inc.	1.39
10. American International Group	1.36
% of net assets in top ten holdings	19.45

Analysis

# of Stock Hldgs	499
# of Bond Hldgs	0
# of Other Hldgs	2
GeoAvgCap (mil)	\$52,412.77
Turnover Ratio	4%
P/C Ratio	8.87
P/E Ratio	15.16
P/B Ratio	2.35

Stock Sector Breakdown

Information	% of net assets		% of net assets		% of net assets
	20.01	Service	45.47	Manufacturing	34.52
Software	3.67	Healthcare	11.95	Consumer Goods	8.67
Hardware	9.00	Consumer Services	7.97	Industrial Materials	12.13
Media	3.61	Business Services	4.01	Energy	9.95
Telecom	3.73	Financial Services	21.54	Utilities	3.77



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The full name of this investment option is Principal Large Cap Stock Index Sep Acct-Standard.

Standard & Poor's 500 Index is a market capitalization-weighted index of 500 widely held stocks often used as a proxy for the stock market.

Alpha - The difference between an investment's actual returns and its expected performance, given its level of risk (as measured by beta). **Beta** - An investment's sensitivity to market movements. **R-squared** - Ranges from 0 to 100 and reveals how closely an investment's returns track those of a benchmark index. **Standard Deviation** - Measures how much an investment's returns are likely to fluctuate. **Mean** - Represents the annualized total return for a fund over 3 years. **Sharpe Ratio** - Measures how an investment balances risks and rewards. The higher the Sharpe ratio, the better the investment's historical risk-adjusted performance. **Excess Return** - The difference between a manager's return and the return of an external standard such as a passive index. **Excess Risk** - The standard deviation or volatility of excess returns. **Information Ratio** - A risk-adjusted measure commonly used to evaluate an active manager's involvement skill. It's defined as the manager's excess return divided by the variability or standard deviation of the excess return.

Each index based investment option is invested in the stocks or bonds of the index it tracks. Performance of indexes reflects the unmanaged results for the market segment the selected stocks or bonds represent. There is no assurance an index based investment option will match the performance of the index tracked.

S&P 500 is a trademark of The McGraw-Hill Companies, Inc. and has been licensed for use by Principal Life Insurance Company and Principal Management Corporation. The product is not sponsored, endorsed, sold or promoted by Standard & Poor's and Standard & Poor's makes no representation regarding the advisability of investing in the product.

Large Company Growth Separate Account-Stnd as of 06/30/2007

Investment Strategy

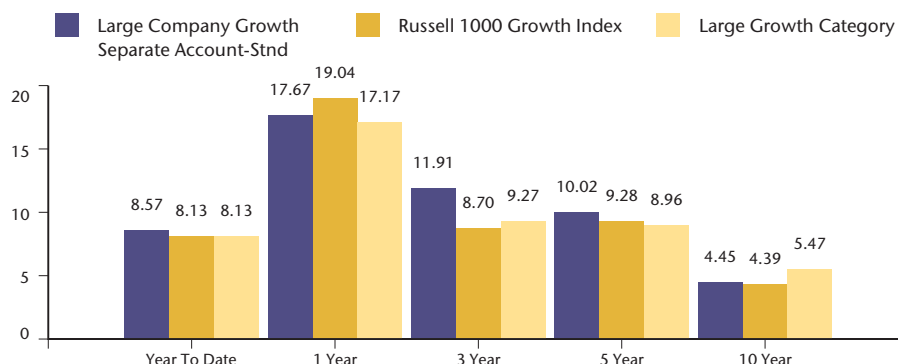
The investment option primarily invests in common stocks of large capitalization companies with strong earnings growth potential. It normally invests the majority of assets in companies with large market capitalizations at the time of purchase. Management places strong emphasis on companies it believes are guided by high quality management teams. It also attempts to identify those companies that are market leaders possessing the ability to control pricing and margins in their respective industries. It may invest up to 25% of assets in foreign securities.



Portfolio managers

Anthony Rizza, CFA. Since 01/01/2005. B.S., U of Connecticut

Long-term returns % as of 06/30/2007



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Long Term Returns	Year To Date	1 Year	3 Year	5 Year	10 Year
Total Return %	8.57	17.67	11.91	10.02	4.45
Russell 1000 Growth Index %	8.13	19.04	8.70	9.28	4.39
Large Growth Category %	8.13	17.17	9.27	8.96	5.47
Morningstar Percentile Rankings	-	42	19	30	66
# of funds in category	1750	1687	1426	1151	471

Annual Returns	2006	2005	2004	2003	2002
Total Return %	9.67	11.82	9.16	25.98	-28.87
Russell 1000 Growth Index %	9.07	5.26	6.30	29.75	-27.88
Large Growth Category %	7.26	7.00	8.36	29.33	-26.69
Morningstar Percentile Rankings	27	16	40	64	65
# of Funds in Category	1623	1483	1351	1239	1071

Morningstar percentile rankings are based on total returns.

Morningstar category

Large Growth

Morningstar Style Box™

As of 03/31/2007

Investment style			Market capitalization
Value	Blend	Growth	
			Large
			Medium
			Small

Risk and Return Statistics

as of 06/30/2007 Relative to Russell 1000 Growth Index

	3Yr	5Yr
Alpha	3.11	1.25
Beta	0.97	0.91
R-Squared	84.65	88.23
Standard Deviation	9.41	11.37
Mean	11.90	10.01
Sharpe Ratio	0.83	0.65
Excess Return	3.20	0.73
Excess Risk	3.69	4.04
Information Ratio	0.87	0.18

Operations

Total Investment Expense Net	0.71%
Total Investment Expense Gross	0.71%
Inception Date	06/01/1995
Total Net Assets (mil)	\$1,208.64



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Large Company Growth Separate Account-Stdnd as of 06/30/2007

Portfolio information

Composition as of 03/31/2007

% of Assets		Top ten holdings	% of net assets	Analysis
	U.S. Stocks 90.41	1. Google, Inc.	3.93	# of Stock Hldgs 52
	Cash 5.58	2. Gilead Sciences, Inc.	3.59	# of Bond Hldgs 0
	Non-U.S. Stocks 4.01	3. Apple, Inc.	3.58	# of Other Hldgs 1
		4. Cisco Systems, Inc.	3.33	GeoAvgCap (mil) \$34,653.83
		5. Coca-Cola Company	3.29	Turnover Ratio 94%
		6. Morgan Stanley	3.06	P/C Ratio 10.25
		7. Goldman Sachs Group, Inc.	2.97	P/E Ratio 19.35
		8. Hewlett-Packard Company	2.96	P/B Ratio 3.03
		9. Microsoft Corporation	2.91	
		10. CVS Caremark Corporation	2.87	
		% of net assets in top ten holdings	32.49	

Stock Sector Breakdown

Information	% of net assets	Service	% of net assets	Manufacturing	% of net assets
Software	22.41	Healthcare	55.26	Consumer Goods	22.32
Hardware	4.57	Consumer Services	20.56	Industrial Materials	12.70
Media	15.02	Business Services	14.74	Energy	5.95
Telecom	2.82	Financial Services	11.45	Utilities	3.67
	0.00		8.51		0.00



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The full name of this investment option is Principal Large Company Growth Separate Account-Standard.

Russell 1000 Growth Index is a market-capitalization weighted index of those firms in the Russell 1000 with higher price-to-book ratios and higher forecasted growth values.

Alpha - The difference between an investment's actual returns and its expected performance, given its level of risk (as measured by beta). **Beta** - An investment's sensitivity to market movements. **R-squared** - Ranges from 0 to 100 and reveals how closely an investment's returns track those of a benchmark index. **Standard Deviation** - Measures how much an investment's returns are likely to fluctuate. **Mean** - Represents the annualized total return for a fund over 3 years. **Sharpe Ratio** - Measures how an investment balances risks and rewards. The higher the Sharpe ratio, the better the investment's historical risk-adjusted performance. **Excess Return** - The difference between a manager's return and the return of an external standard such as a passive index. **Excess Risk** - The standard deviation or volatility of excess returns. **Information Ratio** - A risk-adjusted measure commonly used to evaluate an active manager's involvement skill. It's defined as the manager's excess return divided by the variability or standard deviation of the excess return.

Effective January 5, 2005, this portfolio is sub-advised by Columbus Circle Investors. Prior to January 5, 2005, the portfolio was sub-advised by Principal Global Investors.

MidCap Stock Fund (A) as of 06/30/2007

Ticker: WMCA

Principal
Funds

Investment Strategy

The investment seeks long-term capital appreciation. The fund invests at least 80% of net assets (plus any borrowings for investment purposes) in common stocks of companies with medium market capitalizations, which is similar to companies in the S&P MidCap 400 Index. The fund may invest up to 20% of assets in REIT securities. It may invest in fixed-income securities of any maturity, including mortgage-backed securities, and may invest up to 20% of assets in U.S. government securities and collateralized mortgage obligations fund may invest up to 25% of assets in the securities of foreign issuers.

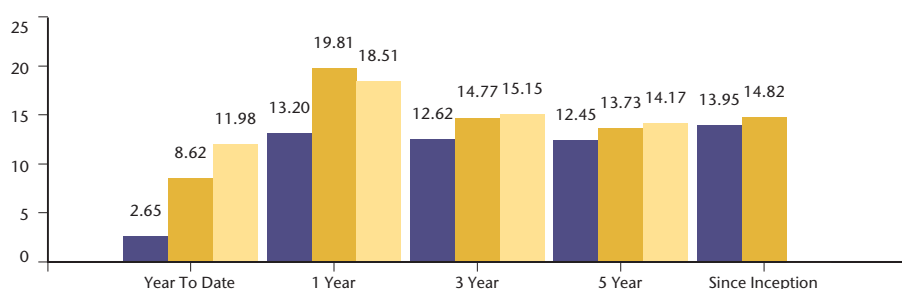


Portfolio managers

Daniel R. Coleman Since 12/01/2001. M.B.A., New York U

Long-term returns % as of 06/30/2007

■ MidCap Stock Fund (A) Including Sales Charge ■ MidCap Stock Fund (A) Excluding Sales Charge ■ Standard and Poor's 400 Midcap Stock Index



Performance disclosure

Investment results shown represent historical performance and do not guarantee future results. Your investment's returns and principal values will fluctuate with changes in interest rates and other market conditions so the value, when redeemed, may be worth more or less than original costs. Current performance may be lower or higher than the performance shown. For more information, including the most recent month-end performance, visit www.principalfunds.com, call your financial professional, or call 1-800-222-5852.

In situations where the net and gross total investment expense figures are different, the mutual fund or the underlying fund in which a Separate Account invests has waived/capped a portion of its management fees through the date displayed in the waiver expiration date or contractual cap expiration date column. Differences may also be shown due to the fund family choosing to pay certain expenses that would normally be payable by the fund. Returns displayed are based on net total investment expense.

Long Term Returns	Year To Date	1 Year	3 Year	5 Year	Since Inception
MidCap Stock Fund (A) Including Sales Charge %	2.65	13.20	12.62	12.45	13.95
MidCap Stock Fund (A) Excluding Sales Charge %	8.62	19.81	14.77	13.73	14.82
Morningstar Percentile Rankings	-	50	43	46	-
# of funds in category	490	473	385	317	-

Annual Returns	2006	2005	2004	2003	2002
Total Return Excluding Sales Charge %	16.64	12.94	13.87	26.78	-10.47
Standard and Poor's 400 Midcap Stock Index %	10.32	12.56	16.48	35.62	-14.53
Mid Cap Blend Category %	13.55	9.25	16.47	38.11	-16.56
Morningstar Percentile Rankings	23	14	74	92	18
# of Funds in Category	454	417	370	334	307

Morningstar percentile rankings are based on total returns.

A maximum up-front sales charge of 5.5% may apply. See the prospectus for details. Performance listed with sales charge reflects the maximum sales charge.

Morningstar category

Mid Cap Blend

Morningstar Style Box™

As of 03/31/2007

Investment style

Value	Blend	Growth	
			Large
			Medium
			Small

Risk and Return Statistics

as of 06/30/2007 Relative to Standard and Poor's 400 Midcap Stock Index

	3Yr	5Yr
Alpha	1.39	1.75
Beta	0.83	0.79
R-Squared	89.68	90.25
Standard Deviation	9.25	10.60
Mean	14.77	13.73
Sharpe Ratio	1.12	1.01
Excess Return	-0.38	-0.45
Excess Risk	3.46	4.26
Information Ratio	-0.11	-0.10

Operations

Total Investment Expense Net	1.09%
Total Investment Expense Gross	1.09%
Contractual Cap Expiration Date	02/28/2008
Inception Date	03/01/2000
Total Net Assets (mil)	\$972.40
12b-1 Fees	0.25%
Sales Charge	5.50%



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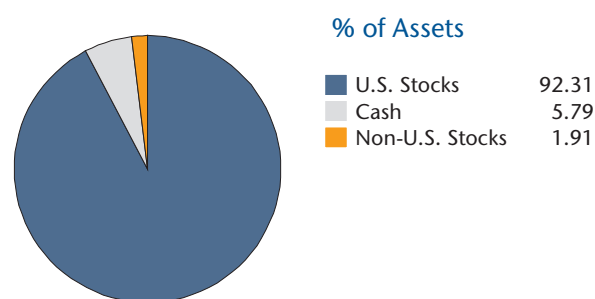
Not FDIC Insured

May Lose Value • Not a Deposit • No Bank Guarantee
Not Insured by any Federal Government Agency

MidCap Stock Fund (A) as of 06/30/2007

Portfolio information[†]

Composition as of 03/31/2007



Top ten holdings

% of net assets

Analysis

1. Microchip Technology, Inc.	2.81
2. Tidewater, Inc.	2.58
3. NiSource, Inc.	2.55
4. HCC Insurance Holdings Inc.	2.55
5. Fidelity National Information Services, Inc.	2.48
6. Nabors Industries, Ltd.	2.37
7. Washington Federal Inc.	2.36
8. Valspar Corporation	2.33
9. Lubrizol Corporation	2.26
10. Pinnacle West Capital	2.25

% of net assets in top ten holdings 24.54

# of Stock Hldgs	58
# of Bond Hldgs	0
# of Other Hldgs	2
GeoAvgCap (mil)	\$4,316.57
Turnover Ratio	22%
P/C Ratio	6.84
P/E Ratio	14.60
P/B Ratio	2.02

Stock Sector Breakdown

Information	% of net assets	Service	% of net assets	Manufacturing	% of net assets
Software	1.81	Healthcare	12.64	Consumer Goods	10.03
Hardware	8.37	Consumer Services	8.46	Industrial Materials	10.95
Media	0.00	Business Services	12.06	Energy	9.80
Telecom	0.35	Financial Services	20.43	Utilities	5.09

Before investing, you should carefully consider a fund's investment objectives, risks, charges, and expenses. Contact your financial professional, visit www.principalfunds.com, or call 1-800-222-5852 to obtain a prospectus containing this and other information. Read the prospectus carefully before investing.

A mutual fund's share price and investment return will vary with market conditions, and the principal value of an investment when you sell your shares may be more or less than the original cost.

Returns shown for periods of less than one year are not annualized. Annualized total returns measure net investment income and capital gain or loss from portfolio investments as an annualized average, assuming the reinvestment of dividends, and without adjusting for loads.

Principal Investors Fund, Inc. is distributed by Principal Funds Distributor, Inc., member of the Principal Financial Group®. Principal Funds Distributor, Principal Shareholder Services, Principal Management Corporation and its affiliates, and Principal Investors Fund, Inc. are collectively referred to as Principal Funds.

The full name of this investment option is Principal Investors MidCap Stock Fund (A).

Standard and Poor's 400 Midcap Stock Index includes approximately 10% of the capitalization of U.S. equity securities. These are comprised of stocks in the middle capitalization range.

Alpha - The difference between an investment's actual returns and its expected performance, given its level of risk (as measured by beta). **Beta** - An investment's sensitivity to market movements. **R-squared** - Ranges from 0 to 100 and reveals how closely an investment's returns track those of a benchmark index. **Standard Deviation** - Measures how much an investment's returns are likely to fluctuate. **Mean** - Represents the annualized total return for a fund over 3 years. **Sharpe Ratio** - Measures how an investment balances risks and rewards. The higher the Sharpe ratio, the better the investment's historical risk-adjusted performance. **Excess Return** - The difference between a manager's return and the return of an external standard such as a passive index. **Excess Risk** - The standard deviation or volatility of excess returns. **Information Ratio** - A risk-adjusted measure commonly used to evaluate an active manager's involvement skill. It's defined as the manager's excess return divided by the variability or standard deviation of the excess return.

[†]Portfolio holdings may not reflect the current portfolio composition and do not constitute a recommendation to purchase or sell a particular security.

Small-cap and mid-cap investment options are subject to more fluctuation in value and may have additional risks than other investment options with stocks of larger, more stable companies.

Formerly known as the WM Mid Cap Stock Fund.

Small Company Value Separate Account-Stnd as of 06/30/2007

Investment Strategy

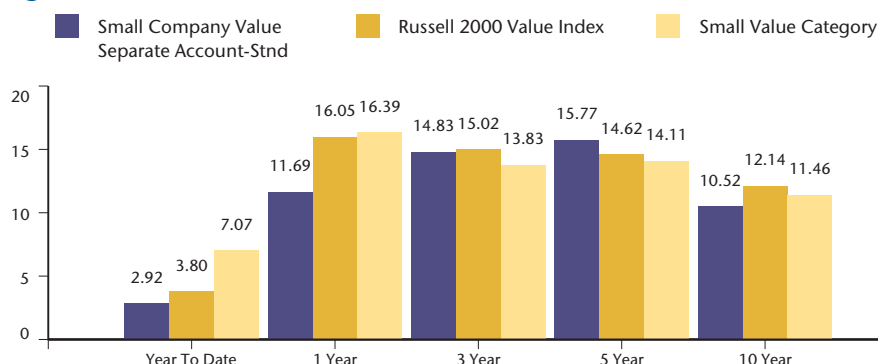
The investment seeks long-term growth of capital and invests primarily in common stocks of small capitalization companies. It normally invests the majority of assets in companies with market capitalizations similar to those companies in the Russell 2000 Value Index. Management focuses on stocks of small-sized companies that are undervalued at the time of purchase. These companies are often characterized by below-average stock price earnings ratios and above-average dividend yields. The Separate Account may invest up to 25% of assets in foreign securities.



Portfolio managers

Tom Morabito, CFA. Since 08/01/2000. M.B.A., Northeastern U

Long-term returns % as of 06/30/2007



Performance disclosure

Investment results shown represent historical performance and do not guarantee future results. Investment returns and principal values fluctuate with changes in interest rates and other market conditions so the value, when redeemed, may be worth more or less than original costs. Current performance may be lower or higher than the performance data shown. For more performance information, including the most recent month-end performance, visit the Principal Sponsor Service CenterSM or The Principal Retirement Service Center[®] at www.principal.com, contact your representative of The Principal, or call our Client Contact Center at 1-800-547-7754.

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Long Term Returns	Year To Date	1 Year	3 Year	5 Year	10 Year
Total Return %	2.92	11.69	14.83	15.77	10.52
Russell 2000 Value Index %	3.80	16.05	15.02	14.62	12.14
Small Value Category %	7.07	16.39	13.83	14.11	11.46
Morningstar Percentile Rankings	-	87	34	22	73
# of funds in category	430	393	305	239	76

Annual Returns	2006	2005	2004	2003	2002
Total Return %	19.19	9.73	20.56	44.84	-1.48
Russell 2000 Value Index %	23.48	4.71	22.25	46.03	-11.43
Small Value Category %	16.30	6.12	20.61	41.96	-9.55
Morningstar Percentile Rankings	27	14	52	28	11
# of Funds in Category	365	326	290	254	213

Morningstar percentile rankings are based on total returns.

Morningstar category

Small Value

Morningstar Style Box™

As of 03/31/2007

Investment style

Value	Blend	Growth	
			Large
			Medium
			Small

Market capitalization

Risk and Return Statistics

as of 06/30/2007 Relative to
Russell 2000 Value Index

	3Yr	5Yr
Alpha	0.13	1.96
Beta	0.97	0.91
R-Squared	94.69	95.62
Standard Deviation	11.97	14.24
Mean	14.82	15.77
Sharpe Ratio	0.89	0.90
Excess Return	-0.20	1.15
Excess Risk	2.78	3.32
Information Ratio	-0.07	0.35

Operations

Total Investment Expense Net	0.91%
Total Investment Expense Gross	0.91%
Inception Date	06/01/1995
Total Net Assets (mil)	\$418.56

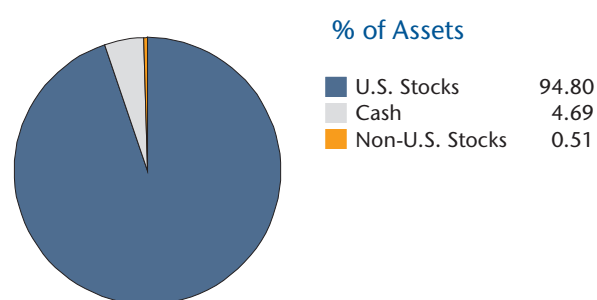


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Small Company Value Separate Account-Std as of 06/30/2007

Portfolio information

Composition as of 03/31/2007



Top ten holdings

	% of net assets
1. Arbor Realty Trust, Inc.	1.23
2. Urstadt Biddle Properties, Inc.	1.19
3. Entertainment Properties Trust	1.17
4. Columbia Banking System, Inc.	1.15
5. Deerfield Triarc Capital Corporation	1.14
6. Community Trust Bancorp, Inc.	1.12
7. Advanta B	1.09
8. Gramercy Capital Corporation	1.08
9. Sterling Financial Corporation	1.08
10. BancFirst Corporation	1.07
% of net assets in top ten holdings	11.32

Analysis

# of Stock Hldgs	153
# of Bond Hldgs	0
# of Other Hldgs	1
GeoAvgCap (mil)	\$966.65
Turnover Ratio	84%
P/C Ratio	4.03
P/E Ratio	15.12
P/B Ratio	1.78

Stock Sector Breakdown

Information	% of net assets	Service	% of net assets	Manufacturing	% of net assets
Software	12.61	Healthcare	57.73	Consumer Goods	29.67
Hardware	3.17	Consumer Services	3.64	Industrial Materials	6.07
Media	7.52	Business Services	9.27	Energy	13.71
Telecom	1.17	Financial Services	11.03	Utilities	5.84
	0.75		33.79		4.05



This retirement focused investment option was selected through the Principal Due Diligence ProgramSM, our rigorous and disciplined process for identifying, hiring, and retaining premier investment talent. This comprehensive investment review approach allows us to identify stable, well managed, investment management firms with premier talent and monitor these firms to identify any adverse changes in their organizations, investment processes, or performance results.

Separate Accounts are available through a group annuity contract with the Principal Life Insurance Company. Insurance products and plan administrative services are provided by Principal Life Insurance Company a member of the Principal Financial Group, Des Moines, IA 50392. See the group annuity contract for the full name of the Separate Account. Certain Separate Accounts may not be available in all states.

The full name of this investment option is Principal Small Company Value Separate Acct-Standard.

Russell 2000 Value Index is a market-weighted total return index that measures the performance of companies within the Russell 2000 Index having lower price-to-book ratios and lower forecasted growth values.

Alpha - The difference between an investment's actual returns and its expected performance, given its level of risk (as measured by beta). **Beta** - An investment's sensitivity to market movements. **R-squared** - Ranges from 0 to 100 and reveals how closely an investment's returns track those of a benchmark index. **Standard Deviation** - Measures how much an investment's returns are likely to fluctuate. **Mean** - Represents the annualized total return for a fund over 3 years. **Sharpe Ratio** - Measures how an investment balances risks and rewards. The higher the Sharpe ratio, the better the investment's historical risk-adjusted performance. **Excess Return** - The difference between a manager's return and the return of an external standard such as a passive index. **Excess Risk** - The standard deviation or volatility of excess returns. **Information Ratio** - A risk-adjusted measure commonly used to evaluate an active manager's involvement skill. It's defined as the manager's excess return divided by the variability or standard deviation of the excess return.

Small-cap and mid-cap investment options are subject to more fluctuation in value and may have additional risks than other investment options with stocks of larger, more stable companies.

Vanguard Explorer Fund as of 06/30/2007

Investment Strategy

The investment seeks to provide long-term capital appreciation. The fund invests mainly in the stocks of small companies. These companies tend to be unseasoned but are considered by the advisors to have superior growth potential. These companies often provide little or no dividend income.



Vanguard

Portfolio managers

John Granahan, CFA. Since 02/28/1990. Graduate, Catholic U of America

Kenneth L. Abrams Since 02/01/1994. M.B.A., Stanford U

Edward Antoian, CFA. Since 08/01/1997. M.B.A., U of Pennsylvania

Ford B. Draper Jr. Since 02/01/2005. MBA, Columbia U.

James Troyer, CFA. Since 02/17/2006. A.B., C of Occidental

Long-term returns % as of 06/30/2007



Performance disclosure

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Long Term Returns	Year To Date	1 Year	3 Year	5 Year	10 Year
Total Return %	10.69	16.70	12.86	13.53	10.76
Russell 2000 Growth Index %	9.33	16.83	11.76	13.08	5.28
Small Growth Category %	10.49	16.28	11.54	12.08	8.42
Morningstar Percentile Rankings	-	47	36	32	28
# of funds in category	834	791	645	533	231

Annual Returns	2006	2005	2004	2003	2002
Total Return %	9.70	9.28	13.75	44.25	-24.58
Russell 2000 Growth Index %	13.35	4.15	14.31	48.54	-30.26
Small Growth Category %	10.59	6.07	12.33	46.24	-28.03
Morningstar Percentile Rankings	54	24	42	50	34
# of Funds in Category	753	687	608	570	494

Morningstar percentile rankings are based on total returns.

Morningstar category

Small Growth

Morningstar Style Box™

As of 03/31/2007

Investment style

Value	Blend	Growth	
			Large
			Medium
			Small

Risk and Return Statistics

as of 06/30/2007 Relative to Russell 2000 Growth Index

	3Yr	5Yr
Alpha	1.93	1.46
Beta	0.85	0.87
R-Squared	97.13	97.97
Standard Deviation	13.27	15.82
Mean	12.86	13.53
Sharpe Ratio	0.69	0.71
Excess Return	1.10	0.45
Excess Risk	3.17	3.22
Information Ratio	0.35	0.14

Operations

Total Investment Expense Net	0.46%
Total Investment Expense Gross	0.46%
Inception Date	12/11/1967
Total Net Assets (mil)	\$12,620.84
12b-1 Fees	-
Ticker	VEXPX



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Vanguard Explorer Fund as of 06/30/2007

Portfolio information

Composition as of 03/31/2007



Stock Sector Breakdown

Information	% of net assets	Service	% of net assets	Manufacturing	% of net assets
Software	17.92	Healthcare	57.35	Consumer Goods	24.73
Hardware	5.91	Consumer Services	16.63	Industrial Materials	7.10
Media	9.60	Business Services	14.92	Energy	12.16
Telecom	1.07	Financial Services	15.85	Utilities	4.79
	1.34		9.95		0.68

Access Funds consist of an assortment of mutual funds from some of the premier names in the mutual fund industry. These investment options provide for additional choice to supplement the Foundation Options we offer through the Principal Due Diligence ProgramSM.

Returns shown for periods of less than one year are not annualized. Annualized total returns measure net investment income and capital gain or loss from portfolio investments as an annualized average, assuming the reinvestment of dividends, and without adjusting for loads.

Insurance products and plan administrative services are provided by Principal Life Insurance Company. Securities are offered through Princor Financial Services Corporation, 800-247-4123, member SIPC. Princor and Principal Life are members of the Principal Financial Group®, Des Moines, IA 50392.

Before investing in mutual funds, investors should carefully consider the investment objectives, risks, charges and expenses of the funds. This and other information is contained in the free prospectus, which can be obtained from your local representative, by visiting www.principal.com, or by contacting us at 1-800-547-7754. Please read the prospectus carefully before investing.

Russell 2000 Growth Index is a market-weighted total return index that measures the performance of companies within the Russell 2000 Index having higher price-to-book ratio and higher forecasted growth values.

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Diversified International Separate Account-Stnd as of 06/30/2007

Investment Strategy

The investment option normally invests the majority of assets in companies in at least three different countries. It invests in securities of companies with their principal place of business or principal office outside of the United States; companies for which the principal securities trade on a foreign exchange; and companies, regardless of where their securities are traded, that derive 50% or more of their total revenue from goods or services produced or sold outside of the United States. The Separate Account may invest securities of companies with small to medium market capitalizations.



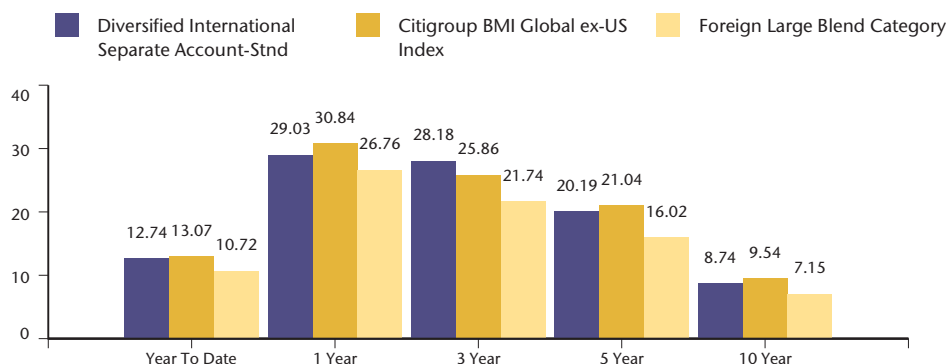
Portfolio managers

Paul Blankenhagen, CFA. Since 12/01/2003. Master, Drake U

Juliet Cohn Since 05/01/2004. Bachelor, Trinity C

Christopher Ibach, CFA. Since 05/30/2007. M.B.A., U of Iowa

Long-term returns % as of 06/30/2007



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Long Term Returns	Year To Date	1 Year	3 Year	5 Year	10 Year
Total Return %	12.74	29.03	28.18	20.19	8.74
Citigroup BMI Global ex-US Index %	13.07	30.84	25.86	21.04	9.54
Foreign Large Blend Category %	10.72	26.76	21.74	16.02	7.15
Morningstar Percentile Rankings	-	18	3	5	17
# of funds in category	759	707	547	446	208

Annual Returns	2006	2005	2004	2003	2002
Total Return %	27.99	24.14	20.99	33.73	-15.57
Citigroup BMI Global ex-US Index %	27.28	19.59	22.51	43.53	-13.50
Foreign Large Blend Category %	24.70	14.90	17.33	33.74	-16.90
Morningstar Percentile Rankings	14	4	10	44	34
# of Funds in Category	643	573	527	476	426

Morningstar percentile rankings are based on total returns.

Morningstar category

Foreign Large Blend

Morningstar Style Box™

As of 03/31/2007

Investment style			Market capitalization
Value	Blend	Growth	
			Large
			Medium
			Small

Risk and Return Statistics

as of 06/30/2007 Relative to Citigroup BMI Global ex-US Index

	3Yr	5Yr
Alpha	0.19	-1.05
Beta	1.09	1.02
R-Squared	97.74	96.86
Standard Deviation	11.14	13.56
Mean	28.17	20.19
Sharpe Ratio	1.95	1.23
Excess Return	2.30	-0.88
Excess Risk	1.90	2.41
Information Ratio	1.21	-0.36

Operations

Total Investment Expense Net	1.06%
Total Investment Expense Gross	1.06%
Inception Date	05/20/1987
Extended Performance	
Inception Date#	04/30/1987
Total Net Assets (mil)	\$3,681.35



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Diversified International Separate Account-Stdnd as of 06/30/2007

Portfolio information

Composition as of 03/31/2007

% of Assets		Top ten holdings		% of net assets	Analysis	
	Non-U.S. Stocks 99.09	1. Toyota Motor		1.47	# of Stock Hldgs	753
	Preferred 0.47	2. Vodafone Grp		1.26	# of Bond Hldgs	1
	Cash 0.43	3. Nestle		1.23	# of Other Hldgs	7
	Other 0.01	4. Royal Bank Of Scotland Grp		1.16	GeoAvgCap (mil)	\$21,822.46
		5. Banco Santander Central Hispano		1.16	Turnover Ratio	88%
		6. Total SA		1.14	P/C Ratio	8.11
		7. Roche Holding		1.08	P/E Ratio	14.42
		8. Allianz		1.01	P/B Ratio	2.31
		9. Credit Suisse Grp		0.99		
		10. Royal Bank of Canada		0.94		
		% of net assets in top ten holdings		11.44		

Top 5 Countries	% of net assets	Regional exposure	% of net assets
United Kingdom	19.46	Europe	60.05
Japan	16.36	Japan	16.51
France	8.65	Pacific Rim	14.53
Germany	8.24	Other	6.86
Switzerland	7.39	Latin America	2.04



This retirement focused investment option was selected through the Principal Due Diligence ProgramSM, our rigorous and disciplined process for identifying, hiring, and retaining premier investment talent. This comprehensive investment review approach allows us to identify stable, well managed, investment management firms with premier talent and monitor these firms to identify any adverse changes in their organizations, investment processes, or performance results.

Separate Accounts are available through a group annuity contract with the Principal Life Insurance Company. Insurance products and plan administrative services are provided by Principal Life Insurance Company a member of the Principal Financial Group, Des Moines, IA 50392. See the group annuity contract for the full name of the Separate Account. Certain Separate Accounts may not be available in all states.

The full name of this investment option is Principal Diversified International Sep Acct-Standard.

Citigroup BMI Global ex-US Index consists of 100% of each country's available capitalization. This excludes the United States capitalization.

Alpha - The difference between an investment's actual returns and its expected performance, given its level of risk (as measured by beta). **Beta** - An investment's sensitivity to market movements. **R-squared** - Ranges from 0 to 100 and reveals how closely an investment's returns track those of a benchmark index. **Standard Deviation** - Measures how much an investment's returns are likely to fluctuate. **Mean** - Represents the annualized total return for a fund over 3 years. **Sharpe Ratio** - Measures how an investment balances risks and rewards. The higher the Sharpe ratio, the better the investment's historical risk-adjusted performance. **Excess Return** - The difference between a manager's return and the return of an external standard such as a passive index. **Excess Risk** - The standard deviation or volatility of excess returns. **Information Ratio** - A risk-adjusted measure commonly used to evaluate an active manager's involvement skill. It's defined as the manager's excess return divided by the variability or standard deviation of the excess return.

This investment option is subject to additional risk due to fluctuating exchange rates, foreign accounting and financial policies, and other economic and political environments.

Principal LifeTime Strategic Income Sep Acct-Standard

as of 06/30/2007

Investment Strategy

The investment seeks current income. The fund primarily invests in shares of other Principal Investors funds. The underlying funds are intended to give the fund moderate exposure to the domestic and foreign equity and fixed income markets. In deciding how to allocate the fund's assets among the underlying funds, the subadvisor considers long-term asset class returns and volatility assumptions. There are no minimum or maximum percentages in which the fund must invest in any underlying fund.



Portfolio managers

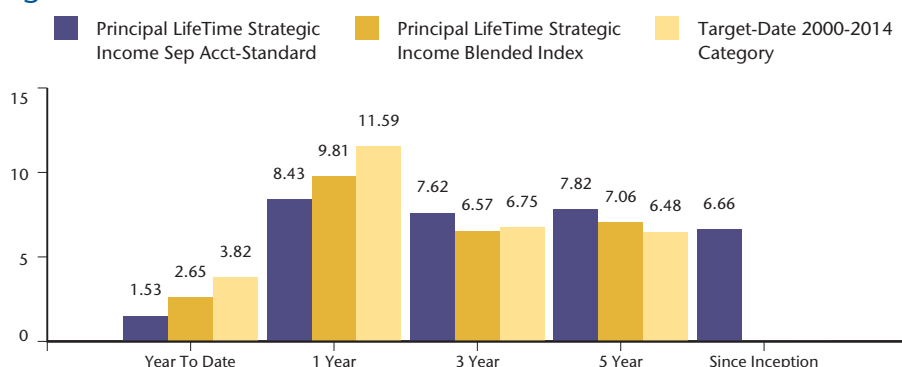
Dirk Laschanzky, CFA. Since 03/01/2001. M.B.A., U of Iowa

James Fennessey, CFA. Since 06/01/2007. B.S., Truman State U

Michael Finnegan, CFA. Since 06/01/2007. M.A., U of Iowa

Randy Welch Since 06/01/2007. M.B.A., Drake U

Long-term returns % as of 06/30/2007



Performance disclosure

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Long Term Returns	Year To Date	1 Year	3 Year	5 Year	Since Inception
Total Return %	1.53	8.43	7.62	7.82	6.66
Principal LifeTime Strategic Income Blended Index %	2.65	9.81	6.57	7.06	-
Target-Date 2000-2014 Category %	3.82	11.59	6.75	6.48	-
Morningstar Percentile Rankings	-	81	32	24	-
# of funds in category	259	218	94	37	-

Annual Returns	2006	2005	2004	2003	2002
Total Return %	8.95	3.96	10.92	15.29	-1.70
Principal LifeTime Strategic Income Blended Index %	6.90	3.48	6.15	10.74	2.09
Target-Date 2000-2014 Category %	8.60	3.68	6.82	13.67	-4.11
Morningstar Percentile Rankings	39	45	11	37	18
# of Funds in Category	186	124	88	43	37

Morningstar percentile rankings are based on total returns.

Morningstar category

Target-Date 2000-2014

Morningstar Style BoxTM

As of 03/31/2007

Investment style			Duration			Market capitalization	Quality
Value	Blend	Growth	Short	Int	Long		

Risk and Return Statistics

as of 06/30/2007 Relative to Principal LifeTime Strategic Income Blended Index

	3Yr	5Yr
Alpha	0.98	1.68
Beta	1.01	0.76
R-Squared	80.46	82.55
Standard Deviation	3.16	4.22
Mean	7.62	7.82
Sharpe Ratio	1.09	1.13
Excess Return	1.05	0.76
Excess Risk	1.43	2.18
Information Ratio	0.74	0.35

Operations

Total Investment Expense Net	0.84%
Total Investment Expense Gross	0.85%
Waiver Expiration Date	02/28/2008
Inception Date	03/30/2001
Total Net Assets (mil)	\$537.40



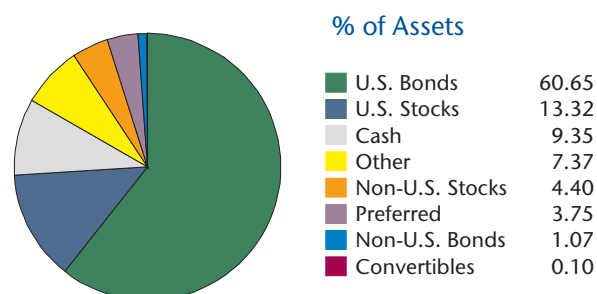
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Principal LifeTime Strategic Income Sep Acct-Standard

as of 06/30/2007

Portfolio information

Composition as of 03/31/2007



Top ten holdings

% of net assets

Analysis

1. Principal Inv Bond & Mtg Secs Instl	43.17
2. Principal Inv Inflation Protection Instl	13.08
3. Principal Inv Ultra Short Bond Instl	12.41
4. Principal Inv Preferred Secs Instl	6.84
5. Principal Inv Real Estate Sec Instl	4.64
6. Principal Inv Intl Growth Instl	3.64
7. Principal Inv Disc LargeCap Blend Instl	3.52
8. Principal Inv Ptr LargeCp BI I Instl	2.24
9. Principal Inv Ptr International Instl	2.18
10. Principal Inv Ptr Large Cap Value Instl	1.66
% of net assets in top ten holdings	93.38

# of Stock Hldgs	0
# of Bond Hldgs	0
# of Other Hldgs	15
GeoAvgCap (mil)	\$22,392.86
Turnover Ratio	49%
P/C Ratio	9.57
P/E Ratio	16.30
P/B Ratio	2.52

Stock Sector Breakdown

Information	% of net assets	Service	% of net assets	Manufacturing	% of net assets
Software	2.64	Healthcare	8.79	Consumer Goods	8.25
Hardware	6.10	Consumer Services	6.91	Industrial Materials	10.81
Media	2.06	Business Services	4.40	Energy	6.79
Telecom	3.23	Financial Services	37.08	Utilities	2.94



This retirement focused investment option was selected through the Principal Due Diligence ProgramSM, our rigorous and disciplined process for identifying, hiring, and retaining premier investment talent. This comprehensive investment review approach allows us to identify stable, well managed, investment management firms with premier talent and monitor these firms to identify any adverse changes in their organizations, investment processes, or performance results.

Separate Accounts are available through a group annuity contract with the Principal Life Insurance Company. Insurance products and plan administrative services are provided by Principal Life Insurance Company a member of the Principal Financial Group, Des Moines, IA 50392. See the group annuity contract for the full name of the Separate Account. Certain Separate Accounts may not be available in all states.

The full name of this investment option is Principal LifeTime Strategic Income Sep Acct-Standard.

Principal LifeTime Strategic Income Blended Index is composed of underlying indexes that represent the target asset allocation weights of the Principal LifeTime Strategic Income portfolio. The weightings as of March 31, 2007 are 19.0% Russell 3000 Index, 6.0 EAFE Index, and 75.0% Lehman Aggregate Index.

Alpha - The difference between an investment's actual returns and its expected performance, given its level of risk (as measured by beta). **Beta** - An investment's sensitivity to market movements. **R-squared** - Ranges from 0 to 100 and reveals how closely an investment's returns track those of a benchmark index. **Standard Deviation** - Measures how much an investment's returns are likely to fluctuate. **Mean** - Represents the annualized total return for a fund over 3 years. **Sharpe Ratio** - Measures how an investment balances risks and rewards. The higher the Sharpe ratio, the better the investment's historical risk-adjusted performance. **Excess Return** - The difference between a manager's return and the return of an external standard such as a passive index. **Excess Risk** - The standard deviation or volatility of excess returns. **Information Ratio** - A risk-adjusted measure commonly used to evaluate an active manager's involvement skill. It's defined as the manager's excess return divided by the variability or standard deviation of the excess return.

Equity investment options involve greater risk, including heightened volatility, than fixed-income investment options. Fixed-income investment options are subject to interest rate risk, and their value will decline as interest rates rise.

Asset allocation does not guarantee a profit or protect against a loss. Investing in real estate, small-cap, international, and high-yield investment options involves additional risks.

This Separate Account invests directly in the Institutional class shares of a Principal Investors LifeTime Fund. The mutual fund operating expenses for each Principal Investors LifeTime Fund are reflected in the Total Investment Expense of the Separate Account as well as the operating expenses of the underlying funds in which the Principal Investors LifeTime Fund invests. Based on the asset allocation of the Principal Investors LifeTime Funds as in the prospectus dated May 29, 2007, the weighted average operating expenses of the underlying funds are: Principal LifeTime Strategic Income, 0.56%; Principal LifeTime 2010, 0.60%; Principal LifeTime 2020, 0.68%; Principal LifeTime 2030, 0.69%; Principal LifeTime 2040, 0.69%; Principal LifeTime 2050, 0.71%. For further information on all mutual fund expenses, see the prospectus of the underlying Principal Investors LifeTime Fund. All voting rights associated with ownership of shares in the mutual fund are the rights of the Separate Account, not of contract holders investing in the Separate Account.

Principal LifeTime 2010 Separate Account-Standard

as of 06/30/2007

Investment Strategy

The investment seeks a total return consisting of long-term growth of capital and current income. The fund primarily invests in shares of other Principal Investors funds. The underlying funds are intended to give the fund broad exposure to the domestic and foreign equity and fixed income markets. The sub-advisor intends to allocate assets so that within approximately ten to fifteen years after the year 2010, the fund's assets invested in the underlying funds match the asset allocation of the Principal LifeTime Strategic Income fund.



Portfolio managers

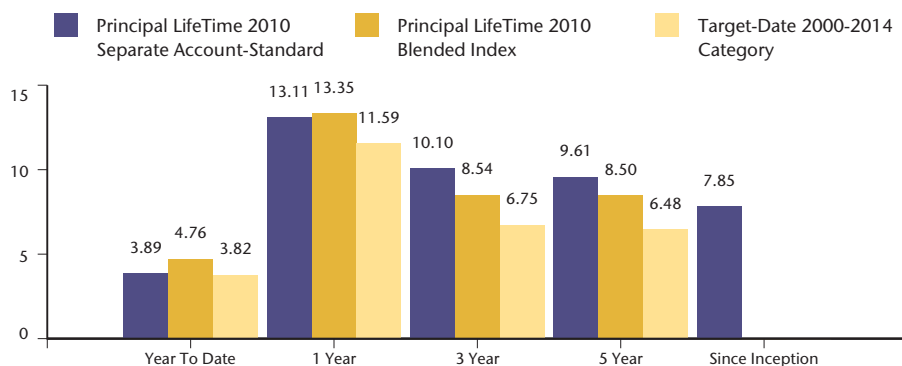
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Long-term returns % as of 06/30/2007



Performance disclosure

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Long Term Returns	Year To Date	1 Year	3 Year	5 Year	Since Inception
Total Return %	3.89	13.11	10.10	9.61	7.85
Principal LifeTime 2010 Blended Index %	4.76	13.35	8.54	8.50	-
Target-Date 2000-2014 Category %	3.82	11.59	6.75	6.48	-
Morningstar Percentile Rankings	-	27	5	3	-
# of funds in category	259	218	94	37	-

Annual Returns	2006	2005	2004	2003	2002
Total Return %	11.84	5.40	11.62	18.79	-4.44
Principal LifeTime 2010 Blended Index %	8.73	4.11	7.92	14.89	-2.63
Target-Date 2000-2014 Category %	8.60	3.68	6.82	13.67	-4.11
Morningstar Percentile Rankings	18	7	2	6	47
# of Funds in Category	186	124	88	43	37

Morningstar percentile rankings are based on total returns.

Morningstar category

Target-Date 2000-2014

Morningstar Style BoxTM

As of 03/31/2007

Investment style			Duration			Market capitalization	Quality
Value	Blend	Growth	Short	Int	Long		

Risk and Return Statistics

as of 06/30/2007 Relative to

Principal LifeTime 2010 Blended Index

	3Yr	5Yr
Alpha	1.11	2.00
Beta	1.08	0.81
R-Squared	90.65	87.59
Standard Deviation	4.33	5.49
Mean	10.10	9.61
Sharpe Ratio	1.34	1.18
Excess Return	1.55	1.10
Excess Risk	1.36	2.28
Information Ratio	1.14	0.48

Operations

Total Investment Expense Net	0.88%
Total Investment Expense Gross	0.88%
Inception Date	03/30/2001
Total Net Assets (mil)	\$1,537.76



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Principal LifeTime 2010 Separate Account-Standard

as of 06/30/2007

Portfolio information

Composition as of 03/31/2007



Stock Sector Breakdown

Information	% of net assets	Service	% of net assets	Manufacturing	% of net assets
Software	3.27	Healthcare	9.41	Consumer Goods	8.57
Hardware	6.92	Consumer Services	7.18	Industrial Materials	11.76
Media	2.13	Business Services	5.36	Energy	7.37
Telecom	3.66	Financial Services	31.07	Utilities	3.30



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The full name of this investment option is Principal LifeTime 2010 Separate Account-Standard.

Principal LifeTime 2010 Blended Index is composed of underlying indexes that represent the target asset allocation weights of the Principal LifeTime 2010 portfolio. The index weightings adjust over time as the portfolio changes to become gradually more conservative. The weightings as of March 31, 2007 are 41.9% Russell 3000 Index, 15.1% EAFE Index, and 43.0% Lehman Aggregate Index.

Alpha - The difference between an investment's actual returns and its expected performance, given its level of risk (as measured by beta). **Beta** - An investment's sensitivity to market movements. **R-squared** - Ranges from 0 to 100 and reveals how closely an investment's returns track those of a benchmark index. **Standard Deviation** - Measures how much an investment's returns are likely to fluctuate. **Mean** - Represents the annualized total return for a fund over 3 years. **Sharpe Ratio** - Measures how an investment balances risks and rewards. The higher the Sharpe ratio, the better the investment's historical risk-adjusted performance. **Excess Return** - The difference between a manager's return and the return of an external standard such as a passive index. **Excess Risk** - The standard deviation or volatility of excess returns. **Information Ratio** - A risk-adjusted measure commonly used to evaluate an active manager's involvement skill. It's defined as the manager's excess return divided by the variability or standard deviation of the excess return.

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Asset allocation does not guarantee a profit or protect against a loss. Investing in real estate, small-cap, international, and high-yield investment options involves additional risks.

This Separate Account invests directly in the Institutional class shares of a Principal Investors LifeTime Fund. The mutual fund operating expenses for each Principal Investors LifeTime Fund are reflected in the Total Investment Expense of the Separate Account as well as the operating expenses of the underlying funds in which the Principal Investors LifeTime Fund invests. Based on the asset allocation of the Principal Investors LifeTime Funds as in the prospectus dated May 29, 2007, the weighted average operating expenses of the underlying funds are: Principal LifeTime Strategic Income, 0.56%; Principal LifeTime 2010, 0.60%; Principal LifeTime 2020, 0.68%; Principal LifeTime 2030, 0.69%; Principal LifeTime 2040, 0.69%; Principal LifeTime 2050, 0.71%. For further information on all mutual fund expenses, see the prospectus of the underlying Principal Investors LifeTime Fund. All voting rights associated with ownership of shares in the mutual fund are the rights of the Separate Account, not of contract holders investing in the Separate Account.

Principal LifeTime 2020 Separate Account-Standard

as of 06/30/2007

Investment Strategy

The investment seeks a total return consisting of long-term growth of capital and current income. The fund primarily invests in shares of other Principal Investors funds. The underlying funds are intended to give the fund broad exposure to the domestic and foreign equity and fixed income markets. The sub-advisor intends to allocate assets so that within approximately ten to fifteen years after the year 2020, the fund's assets invested in the underlying funds match the asset allocation of the Principal LifeTime Strategic Income fund.



Portfolio managers

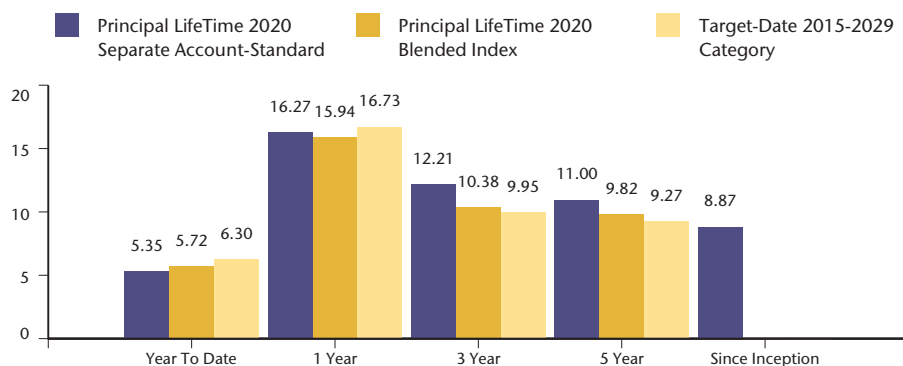
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Long-term returns % as of 06/30/2007



Performance disclosure

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Long Term Returns	Year To Date	1 Year	3 Year	5 Year	Since Inception
Total Return %	5.35	16.27	12.21	11.00	8.87
Principal LifeTime 2020 Blended Index %	5.72	15.94	10.38	9.82	-
Target-Date 2015-2029 Category %	6.30	16.73	9.95	9.27	-
Morningstar Percentile Rankings	-	51	10	8	-
# of funds in category	289	214	61	15	-

Annual Returns	2006	2005	2004	2003	2002
Total Return %	14.03	7.49	12.19	21.58	-7.02
Principal LifeTime 2020 Blended Index %	11.30	5.12	9.54	17.64	-5.79
Target-Date 2015-2029 Category %	12.48	5.79	9.17	20.73	-11.14
Morningstar Percentile Rankings	24	4	10	20	8
# of Funds in Category	169	100	52	18	15

Morningstar percentile rankings are based on total returns.

Morningstar category

Target-Date 2015-2029

Morningstar Style BoxTM

As of 03/31/2007

Investment style

Value	Blend	Growth	
			Large
			Medium
			Small

Risk and Return Statistics

as of 06/30/2007 Relative to
Principal LifeTime 2020 Blended Index

	3Yr	5Yr
Alpha	1.27	2.05
Beta	1.06	0.85
R-Squared	96.09	91.33
Standard Deviation	5.43	6.77
Mean	12.20	11.00
Sharpe Ratio	1.44	1.16
Excess Return	1.82	1.17
Excess Risk	1.12	2.31
Information Ratio	1.62	0.51

Operations

Total Investment Expense Net	0.96%
Total Investment Expense Gross	0.96%
Inception Date	03/30/2001
Total Net Assets (mil)	\$2,979.97



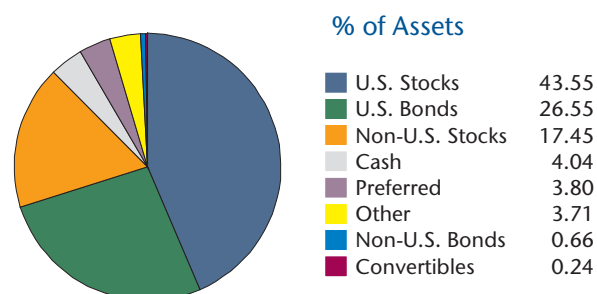
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Principal LifeTime 2020 Separate Account-Standard

as of 06/30/2007

Portfolio information

Composition as of 03/31/2007



Top ten holdings

% of net assets

Analysis

1. Principal Inv Bond & Mtg Secs Instl	21.52
2. Principal Inv Disc LargeCap Blend Instl	11.28
3. Principal Inv Intl Growth Instl	10.92
4. Principal Inv Ptr International Instl	5.90
5. Principal Inv Ptr LargeCp Bl I Instl	5.85
6. Principal Inv Preferred Secs Instl	5.73
7. Principal Inv Ptr Large Cap Gr I Instl	5.36
8. Principal Inv Real Estate Sec Instl	5.25
9. Principal Inv LargeCap Growth Instl	4.52
10. Principal Inv Ptr LgCap Value I Instl	3.31
% of net assets in top ten holdings	79.64

# of Stock Hldgs	0
# of Bond Hldgs	0
# of Other Hldgs	20
GeoAvgCap (mil)	\$22,475.74
Turnover Ratio	7%
P/C Ratio	8.69
P/E Ratio	15.90
P/B Ratio	2.46

Stock Sector Breakdown

Information	% of net assets	Service	% of net assets	Manufacturing	% of net assets
Software	3.44	Healthcare	9.75	Consumer Goods	8.90
Hardware	7.27	Consumer Services	7.38	Industrial Materials	12.19
Media	2.17	Business Services	5.63	Energy	7.66
Telecom	3.91	Financial Services	28.12	Utilities	3.58



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Principal LifeTime 2020 Blended Index is composed of underlying indexes that represent the target asset allocation weights of the Principal LifeTime 2020 portfolio. The index weightings adjust over time as the portfolio changes to become gradually more conservative. The weightings as of March 31, 2007 are 51.1% Russell 3000 Index, 19.4% EAFE Index, and 29.5% Lehman Aggregate Index.

Alpha - The difference between an investment's actual returns and its expected performance, given its level of risk (as measured by beta). **Beta** - An investment's sensitivity to market movements. **R-squared** - Ranges from 0 to 100 and reveals how closely an investment's returns track those of a benchmark index. **Standard Deviation** - Measures how much an investment's returns are likely to fluctuate. **Mean** - Represents the annualized total return for a fund over 3 years. **Sharpe Ratio** - Measures how an investment balances risks and rewards. The higher the Sharpe ratio, the better the investment's historical risk-adjusted performance. **Excess Return** - The difference between a manager's return and the return of an external standard such as a passive index. **Excess Risk** - The standard deviation or volatility of excess returns. **Information Ratio** - A risk-adjusted measure commonly used to evaluate an active manager's involvement skill. It's defined as the manager's excess return divided by the variability or standard deviation of the excess return.

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Principal LifeTime 2030 Separate Account-Standard

as of 06/30/2007

Investment Strategy

The investment seeks a total return consisting of long-term growth of capital and current income. The fund primarily invests in shares of other Principal Investors funds. The underlying funds are intended to give the fund broad exposure to the domestic and foreign equity and fixed income markets. The sub-advisor intends to allocate assets so that within approximately ten to fifteen years after the year 2030, the fund's assets invested in the underlying funds match the asset allocation of the Principal LifeTime Strategic Income fund.



Portfolio managers

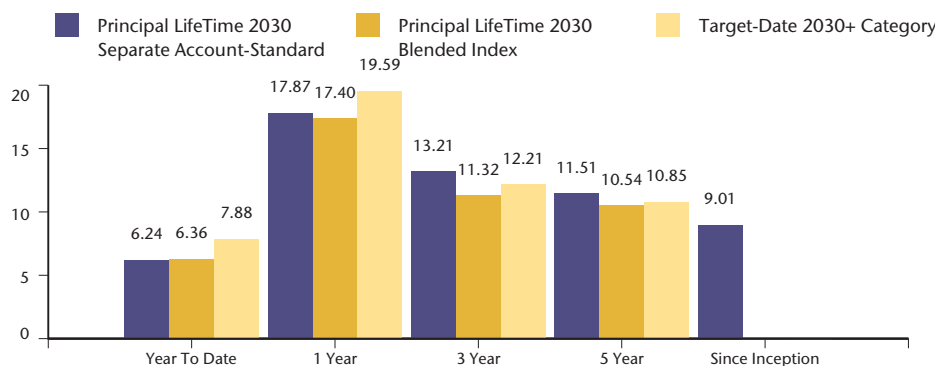
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Long-term returns % as of 06/30/2007



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Long Term Returns	Year To Date	1 Year	3 Year	5 Year	Since Inception
Total Return %	6.24	17.87	13.21	11.51	9.01
Principal LifeTime 2030 Blended Index %	6.36	17.40	11.32	10.54	-
Target-Date 2030+ Category %	7.88	19.59	12.21	10.85	-
Morningstar Percentile Rankings	-	78	25	22	-
# of funds in category	400	300	90	36	-

Annual Returns	2006	2005	2004	2003	2002
Total Return %	15.13	8.20	12.68	23.33	-10.05
Principal LifeTime 2030 Blended Index %	12.72	5.65	10.42	20.51	-8.83
Target-Date 2030+ Category %	14.42	7.27	11.31	25.34	-15.68
Morningstar Percentile Rankings	40	13	26	78	1
# of Funds in Category	231	143	87	42	36

Morningstar percentile rankings are based on total returns.

Morningstar category

Target-Date 2030+

Morningstar Style BoxTM

As of 03/31/2007

Investment style

Value	Blend	Growth	
			Large
			Medium
			Small

Risk and Return Statistics

as of 06/30/2007 Relative to
Principal LifeTime 2030 Blended Index

	3Yr	5Yr
Alpha	1.26	1.73
Beta	1.06	0.88
R-Squared	97.13	94.17
Standard Deviation	6.16	7.85
Mean	13.21	11.52
Sharpe Ratio	1.42	1.08
Excess Return	1.88	0.97
Excess Risk	1.10	2.16
Information Ratio	1.70	0.45

Operations

Total Investment Expense Net	0.97%
Total Investment Expense Gross	0.97%
Inception Date	03/30/2001
Total Net Assets (mil)	\$2,507.04



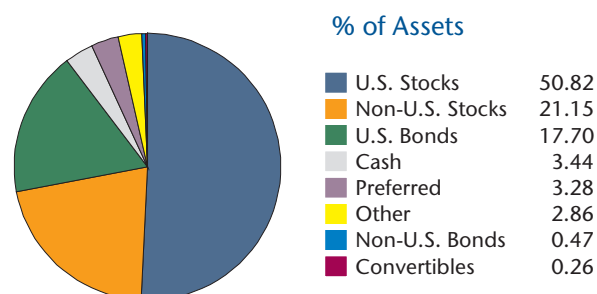
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Principal LifeTime 2030 Separate Account-Standard

as of 06/30/2007

Portfolio information

Composition as of 03/31/2007



Top ten holdings

	% of net assets
1. Principal Inv Bond & Mtg Secs Instl	12.96
2. Principal Inv Intl Growth Instl	12.64
3. Principal Inv Disc LargeCap Blend Instl	12.39
4. Principal Inv Ptr International Instl	6.95
5. Principal Inv Ptr LargeCp Bl I Instl	6.41
6. Principal Inv Ptr Large Cap Gr I Instl	6.24
7. Principal Inv LargeCap Growth Instl	5.51
8. Principal Inv Preferred Secs Instl	4.70
9. Principal Inv Real Estate Sec Instl	4.31
10. Principal Inv Ptr LgCap Value I Instl	3.98
% of net assets in top ten holdings	76.09

Analysis

# of Stock Hldgs	0
# of Bond Hldgs	0
# of Other Hldgs	22
GeoAvgCap (mil)	\$22,694.87
Turnover Ratio	9%
P/C Ratio	8.62
P/E Ratio	15.84
P/B Ratio	2.45

Stock Sector Breakdown

Information	% of net assets	Service	% of net assets	Manufacturing	% of net assets
Software	3.56	Healthcare	9.91	Consumer Goods	9.05
Hardware	7.34	Consumer Services	7.51	Industrial Materials	12.46
Media	2.22	Business Services	5.86	Energy	7.79
Telecom	4.03	Financial Services	26.58	Utilities	3.70



This retirement focused investment option was selected through the Principal Due Diligence ProgramSM, our rigorous and disciplined process for identifying, hiring, and retaining premier investment talent. This comprehensive investment review approach allows us to identify stable, well managed, investment management firms with premier talent and monitor these firms to identify any adverse changes in their organizations, investment processes, or performance results.

Separate Accounts are available through a group annuity contract with the Principal Life Insurance Company. Insurance products and plan administrative services are provided by Principal Life Insurance Company a member of the Principal Financial Group, Des Moines, IA 50392. See the group annuity contract for the full name of the Separate Account. Certain Separate Accounts may not be available in all states.

The full name of this investment option is Principal LifeTime 2030 Separate Account-Standard.

Principal LifeTime 2030 Blended Index is composed of underlying indexes that represent the target asset allocation weights of the Principal LifeTime 2030 portfolio. The index weightings adjust over time as the portfolio changes to become gradually more conservative. The weightings as of March 31, 2007 are 57.3% Russell 3000 Index, 22.5% EAFE Index, and 20.2% Lehman Aggregate Index.

Alpha - The difference between an investment's actual returns and its expected performance, given its level of risk (as measured by beta). **Beta** - An investment's sensitivity to market movements. **R-squared** - Ranges from 0 to 100 and reveals how closely an investment's returns track those of a benchmark index. **Standard Deviation** - Measures how much an investment's returns are likely to fluctuate. **Mean** - Represents the annualized total return for a fund over 3 years. **Sharpe Ratio** - Measures how an investment balances risks and rewards. The higher the Sharpe ratio, the better the investment's historical risk-adjusted performance. **Excess Return** - The difference between a manager's return and the return of an external standard such as a passive index. **Excess Risk** - The standard deviation or volatility of excess returns. **Information Ratio** - A risk-adjusted measure commonly used to evaluate an active manager's involvement skill. It's defined as the manager's excess return divided by the variability or standard deviation of the excess return.

Equity investment options involve greater risk, including heightened volatility, than fixed-income investment options. Fixed-income investment options are subject to interest rate risk, and their value will decline as interest rates rise.

Asset allocation does not guarantee a profit or protect against a loss. Investing in real estate, small-cap, international, and high-yield investment options involves additional risks.

This Separate Account invests directly in the Institutional class shares of a Principal Investors LifeTime Fund. The mutual fund operating expenses for each Principal Investors LifeTime Fund are reflected in the Total Investment Expense of the Separate Account as well as the operating expenses of the underlying funds in which the Principal Investors LifeTime Fund invests. Based on the asset allocation of the Principal Investors LifeTime Funds as in the prospectus dated May 29, 2007, the weighted average operating expenses of the underlying funds are: Principal LifeTime Strategic Income, 0.56%; Principal LifeTime 2010, 0.60%; Principal LifeTime 2020, 0.68%; Principal LifeTime 2030, 0.69%; Principal LifeTime 2040, 0.69%; Principal LifeTime 2050, 0.71%. For further information on all mutual fund expenses, see the prospectus of the underlying Principal Investors LifeTime Fund. All voting rights associated with ownership of shares in the mutual fund are the rights of the Separate Account, not of contract holders investing in the Separate Account.

Principal LifeTime 2040 Separate Account-Standard

as of 06/30/2007

Investment Strategy

The investment seeks a total return consisting of long-term growth of capital and current income. The fund primarily invests in shares of other Principal Investors funds. The underlying funds are intended to give the fund broad exposure to the domestic and foreign equity and fixed income markets. The sub-advisor intends to allocate assets so that within approximately ten to fifteen years after the year 2040, the fund's assets invested in the underlying funds match the asset allocation of the Principal LifeTime Strategic Income fund.



Portfolio managers

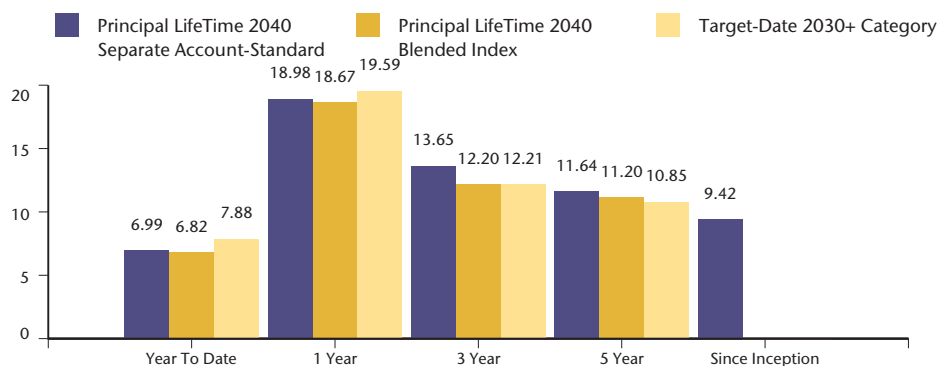
Dirk Laschanzky, CFA. Since 03/01/2001. M.B.A., U of Iowa

James Fennessey, CFA. Since 06/01/2007. B.S., Truman State U

Michael Finnegan, CFA. Since 06/01/2007. M.A., U of Iowa

Randy Welch Since 06/01/2007. M.B.A., Drake U

Long-term returns % as of 06/30/2007



Performance disclosure

Investment results shown represent historical performance and do not guarantee future results. Investment returns and principal values fluctuate with changes in interest rates and other market conditions so the value, when redeemed, may be worth more or less than original costs. Current performance may be lower or higher than the performance data shown. For more performance information, including the most recent month-end performance, visit the Principal Sponsor Service CenterSM or The Principal Retirement Service Center[®] at www.principal.com, contact your representative of The Principal, or call our Client Contact Center at 1-800-547-7754.

In situations where the net and gross total investment expense figures are different, the mutual fund or the underlying fund in which a Separate Account invests has waived/capped a portion of its management fees through the date displayed in the waiver expiration date or contractual cap expiration date column. Differences may also be shown due to the fund family choosing to pay certain expenses that would normally be payable by the fund. Returns displayed are based on net total investment expense.

Long Term Returns	Year To Date	1 Year	3 Year	5 Year	Since Inception
Total Return %	6.99	18.98	13.65	11.64	9.42
Principal LifeTime 2040 Blended Index %	6.82	18.67	12.20	11.20	-
Target-Date 2030+ Category %	7.88	19.59	12.21	10.85	-
Morningstar Percentile Rankings	-	60	14	13	-
# of funds in category	400	300	90	36	-

Annual Returns	2006	2005	2004	2003	2002
Total Return %	15.43	8.65	12.86	24.49	-12.60
Principal LifeTime 2040 Blended Index %	14.26	6.21	11.37	23.42	-11.82
Target-Date 2030+ Category %	14.42	7.27	11.31	25.34	-15.68
Morningstar Percentile Rankings	32	7	21	51	19
# of Funds in Category	231	143	87	42	36

Morningstar percentile rankings are based on total returns.

Morningstar category

Target-Date 2030+

Morningstar Style Box[™]

As of 03/31/2007

Investment style

Value	Blend	Growth	
			Large
			Medium
			Small

Risk and Return Statistics

as of 06/30/2007 Relative to Principal LifeTime 2040 Blended Index

	3Yr	5Yr
Alpha	1.01	1.17
Beta	1.04	0.90
R-Squared	98.22	96.27
Standard Deviation	6.72	8.78
Mean	13.66	11.65
Sharpe Ratio	1.37	0.98
Excess Return	1.45	0.44
Excess Risk	0.93	1.95
Information Ratio	1.57	0.22

Operations

Total Investment Expense Net	0.97%
Total Investment Expense Gross	0.98%
Waiver Expiration Date	02/28/2008
Inception Date	03/30/2001
Total Net Assets (mil)	\$1,227.74



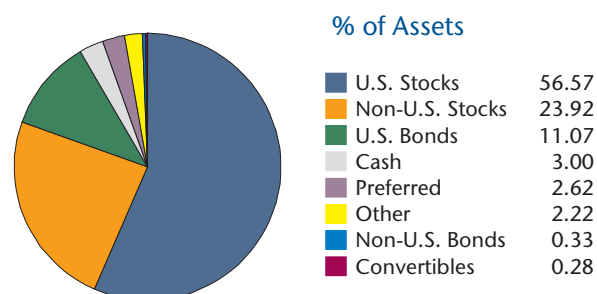
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Principal LifeTime 2040 Separate Account-Standard

as of 06/30/2007

Portfolio information

Composition as of 03/31/2007



Top ten holdings

% of net assets

Analysis

1. Principal Inv Intl Growth Instl	13.79
2. Principal Inv Disc LargeCap Blend Instl	12.73
3. Principal Inv Ptr International Instl	7.55
4. Principal Inv Ptr Large Cap Gr I Instl	7.41
5. Principal Inv Bond & Mtg Secs Instl	7.06
6. Principal Inv Ptr LargeCp BI I Instl	6.85
7. Principal Inv LargeCap Growth Instl	6.04
8. Principal Inv Ptr Large Cap Value Instl	4.50
9. Principal Inv LargeCap Value Instl	4.48
10. Principal Inv Ptr LgCap Value I Inst	4.45
% of net assets in top ten holdings	74.86

# of Stock Hldgs	0
# of Bond Hldgs	0
# of Other Hldgs	22
GeoAvgCap (mil)	\$22,740.07
Turnover Ratio	13%
P/C Ratio	8.57
P/E Ratio	15.81
P/B Ratio	2.44

Stock Sector Breakdown

Information	% of net assets	Service	% of net assets	Manufacturing	% of net assets
Software	3.63	Healthcare	10.00	Consumer Goods	9.10
Hardware	7.43	Consumer Services	7.63	Industrial Materials	12.57
Media	2.24	Business Services	5.99	Energy	7.85
Telecom	4.11	Financial Services	25.74	Utilities	3.72



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The full name of this investment option is Principal LifeTime 2040 Separate Account-Standard.

Principal LifeTime 2040 Blended Index is composed of underlying indexes that represent the target asset allocation weights of the Principal LifeTime 2040 portfolio. The index weightings adjust over time as the portfolio changes to become gradually more conservative. The weightings as of March 31, 2007 are 61.8% Russell 3000 Index, 24.7% EAFE Index, and 13.5% Lehman Aggregate Index.

Alpha - The difference between an investment's actual returns and its expected performance, given its level of risk (as measured by beta). **Beta** - An investment's sensitivity to market movements. **R-squared** - Ranges from 0 to 100 and reveals how closely an investment's returns track those of a benchmark index. **Standard Deviation** - Measures how much an investment's returns are likely to fluctuate. **Mean** - Represents the annualized total return for a fund over 3 years. **Sharpe Ratio** - Measures how an investment balances risks and rewards. The higher the Sharpe ratio, the better the investment's historical risk-adjusted performance. **Excess Return** - The difference between a manager's return and the return of an external standard such as a passive index. **Excess Risk** - The standard deviation or volatility of excess returns. **Information Ratio** - A risk-adjusted measure commonly used to evaluate an active manager's involvement skill. It's defined as the manager's excess return divided by the variability or standard deviation of the excess return.

Equity investment options involve greater risk, including heightened volatility, than fixed-income investment options. Fixed-income investment options are subject to interest rate risk, and their value will decline as interest rates rise.

Asset allocation does not guarantee a profit or protect against a loss. Investing in real estate, small-cap, international, and high-yield investment options involves additional risks.

This Separate Account invests directly in the Institutional class shares of a Principal Investors LifeTime Fund. The mutual fund operating expenses for each Principal Investors LifeTime Fund are reflected in the Total Investment Expense of the Separate Account as well as the operating expenses of the underlying funds in which the Principal Investors LifeTime Fund invests. Based on the asset allocation of the Principal Investors LifeTime Funds as in the prospectus dated May 29, 2007, the weighted average operating expenses of the underlying funds are: Principal LifeTime Strategic Income, 0.56%; Principal LifeTime 2010, 0.60%; Principal LifeTime 2020, 0.68%; Principal LifeTime 2030, 0.69%; Principal LifeTime 2040, 0.69%; Principal LifeTime 2050, 0.71%. For further information on all mutual fund expenses, see the prospectus of the underlying Principal Investors LifeTime Fund. All voting rights associated with ownership of shares in the mutual fund are the rights of the Separate Account, not of contract holders investing in the Separate Account.

Principal LifeTime 2050 Separate Account-Standard

as of 06/30/2007

Investment Strategy

The investment seeks a total return consisting of long-term growth of capital and current income. The fund primarily invests in shares of other Principal Investors funds. The underlying funds are intended to give the fund broad exposure to the domestic and foreign equity and fixed income markets. The sub-advisor intends to allocate assets so that within approximately ten to fifteen years after the year 2050, the fund's assets invested in the underlying funds match the asset allocation of the Principal LifeTime Strategic Income fund.



Portfolio managers

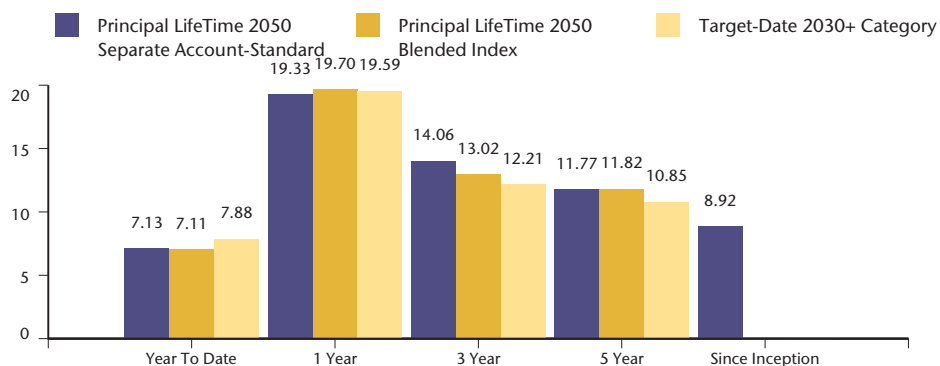
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Michael Finnegan, CFA. Since 06/01/2007. M.A., U of Iowa

Randy Welch Since 06/01/2007. M.B.A., Drake U

Long-term returns % as of 06/30/2007



Performance disclosure

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Long Term Returns	Year To Date	1 Year	3 Year	5 Year	Since Inception
Total Return %	7.13	19.33	14.06	11.77	8.92
Principal LifeTime 2050 Blended Index %	7.11	19.70	13.02	11.82	-
Target-Date 2030+ Category %	7.88	19.59	12.21	10.85	-
Morningstar Percentile Rankings	-	56	8	7	-
# of funds in category	400	300	90	36	-

Annual Returns	2006	2005	2004	2003	2002
Total Return %	15.96	9.17	13.15	26.44	-15.73
Principal LifeTime 2050 Blended Index %	15.81	6.79	12.29	25.94	-14.83
Target-Date 2030+ Category %	14.42	7.27	11.31	25.34	-15.68
Morningstar Percentile Rankings	24	1	15	27	43
# of Funds in Category	231	143	87	42	36

Morningstar percentile rankings are based on total returns.

Morningstar category

Target-Date 2030+

Morningstar Style BoxTM

As of 03/31/2007

Investment style

Value	Blend	Growth	
			Large
			Medium
			Small

Risk and Return Statistics

as of 06/30/2007 Relative to Principal LifeTime 2050 Blended Index

	3Yr	5Yr
Alpha	-0.13	0.14
Beta	1.04	0.92
R-Squared	96.06	96.59
Standard Deviation	7.45	9.97
Mean	13.28	11.31
Sharpe Ratio	1.20	0.85
Excess Return	0.23	-0.53
Excess Risk	1.50	2.00
Information Ratio	0.15	-0.26

Operations

Total Investment Expense Net	0.99%
Total Investment Expense Gross	1.00%
Waiver Expiration Date	02/28/2008
Inception Date	03/30/2001
Total Net Assets (mil)	\$521.00



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Principal LifeTime 2050 Separate Account-Standard

as of 06/30/2007

Portfolio information

Composition as of 03/31/2007



Stock Sector Breakdown

Information	% of net assets	Service	% of net assets	Manufacturing	% of net assets
Software	3.66	Healthcare	10.02	Consumer Goods	9.07
Hardware	7.43	Consumer Services	7.66	Industrial Materials	12.53
Media	2.22	Business Services	6.08	Energy	7.80
Telecom	4.08	Financial Services	25.71	Utilities	3.72



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The full name of this investment option is Principal LifeTime 2050 Separate Account-Standard.

Principal LifeTime 2050 Blended Index is composed of underlying indexes that represent the target asset allocation weights of the Principal LifeTime 2050 portfolio. The index weightings adjust over time as the portfolio changes to become gradually more conservative. The weightings as of March 31, 2007 are 64.2% Russell 3000 Index, 25.8% EAFE Index, and 10.0% Lehman Aggregate Index.

Alpha - The difference between an investment's actual returns and its expected performance, given its level of risk (as measured by beta). **Beta** - An investment's sensitivity to market movements. **R-squared** - Ranges from 0 to 100 and reveals how closely an investment's returns track those of a benchmark index. **Standard Deviation** - Measures how much an investment's returns are likely to fluctuate. **Mean** - Represents the annualized total return for a fund over 3 years. **Sharpe Ratio** - Measures how an investment balances risks and rewards. The higher the Sharpe ratio, the better the investment's historical risk-adjusted performance. **Excess Return** - The difference between a manager's return and the return of an external standard such as a passive index. **Excess Risk** - The standard deviation or volatility of excess returns. **Information Ratio** - A risk-adjusted measure commonly used to evaluate an active manager's involvement skill. It's defined as the manager's excess return divided by the variability or standard deviation of the excess return.

Equity investment options involve greater risk, including heightened volatility, than fixed-income investment options. Fixed-income investment options are subject to interest rate risk, and their value will decline as interest rates rise.

Asset allocation does not guarantee a profit or protect against a loss. Investing in real estate, small-cap, international, and high-yield investment options involves additional risks.

This Separate Account invests directly in the Institutional class shares of a Principal Investors LifeTime Fund. The mutual fund operating expenses for each Principal Investors LifeTime Fund are reflected in the Total Investment Expense of the Separate Account as well as the operating expenses of the underlying funds in which the Principal Investors LifeTime Fund invests. Based on the asset allocation of the Principal Investors LifeTime Funds as in the prospectus dated May 29, 2007, the weighted average operating expenses of the underlying funds are: Principal LifeTime Strategic Income, 0.56%; Principal LifeTime 2010, 0.60%; Principal LifeTime 2020, 0.68%; Principal LifeTime 2030, 0.69%; Principal LifeTime 2040, 0.69%; Principal LifeTime 2050, 0.71%. For further information on all mutual fund expenses, see the prospectus of the underlying Principal Investors LifeTime Fund. All voting rights associated with ownership of shares in the mutual fund are the rights of the Separate Account, not of contract holders investing in the Separate Account.

Description of Key Charts

Pie Chart - Shows the allocation of assets among classes and investment managers.

Bar Chart - Compares absolute performance of the portfolio to the absolute performance of the Benchmark Index.

Quartile Chart - Represents a twenty-five percent range of outcomes. A first quartile ranking means that the manager performed in the top twenty-five percent of its peer universe.

Risk Return Chart (Capital Market Line) - An analysis that exhibits the rate of return in relation to the volatility of those returns as measured by the annualized standard deviation of quarterly returns.

Characteristics - Outlines the general characteristics, i.e. median market capitalization, price earnings ratio, average quality etc., of the underlying securities that make up the portfolio.

Major Equity Strategies and Terminology

Equity - Investment or ownership interest possessed by shareholders in a corporation.

Top-Down - means that the manager looks at the “big picture” second – interest rates, the domestic and/or global economy, the money supply and other economic measures, Federal Reserve behavior, trade figures, inflation, etc. to determine the portfolio allocation to stocks, bonds or cash. Secondly, the manager chooses, for investment, specific sectors and industries consistent within the above mentioned factors. Finally, the manager picks specific securities to buy in the chosen groups.

Bottom-up - refers to a manager whose practice it is second to choose securities that are attractive buys because of specific characteristics of the security. They attempt to find values in these securities anticipated to create future opportunities for profit.

Fundamental - This style includes managers who generate ideas by examining industry publications, 13D filings, company reports and documents, and thorough discussions with company officials. They also use SEC documents to examine a company's financial strength. Attention is also given to industry dynamics as well as the potential for events to occur that would expose a company's underlying values.

Core - managers handle diversified portfolios, typically using a broad index as their benchmark. They are hired to obtain at least general market performance. Core managers are the foundation of active equity portfolio management on which specialized, more dynamic management is built.

Value - managers analyze a universe of stocks and identify those that may be significantly undervalued (cheap) relative to a variety of fundamental and/or technical criteria. A variety of different "tests" are applied to each stock under analysis based upon the manager's definition of value. Some of the most common measures of value include the price/earnings (P/E) ratio, price/book value ratio, and price/cash flow ratio.

Growth - actually encompasses several styles. In general, managers emphasizing growth stocks attempt to identify companies whose sales, earnings, etc. are growing or are expected to grow more rapidly than other stocks and for the economy as a whole.

Sector Rotation - stresses identification and overemphasis of the sectors of the stock market expected to perform well and underweighting the expected laggards. The investment approach is "top down" in that emphasized sectors are usually identified as those that should perform well based upon anticipated economic, political, demographic and social trends.

Indexing (passive investing) - The objective of the index style is to mirror the S&P 500, or another index, and replicate the performance of that index by purchasing all or a representative sampling of the stocks in that index. Managers hold a large number of stocks in their portfolios with performance results not heavily dependent upon any single issue.

Contrarian - Style of management that invests in companies that are relatively unpopular and out of favor with a majority of investors.

Volatility - A measure of the size and frequency of the fluctuations in the value of a stock, bond or a portfolio. The greater the volatility, the higher the risk involved in holding the investment.

Median Market Capitalization - The middle market value in a distribution of stock holdings.

Price Earnings Ratio (P/E) - The current price of a stock divided by its earnings per share.

Earnings Per Share (EPS) - That portion of a company's profit allocated to each outstanding share of common stock.

Price to Book Ratio (P/B) - The current price of a stock divided by its book value per share.

Major Fixed Income Strategies and Terminology

Fixed Income – Debt instruments issued by corporations, governments or government agencies characterized by a fixed interest rate and stated maturity date.

Top-Down - Means that the manager looks at the “big picture” second - interest rates, the domestic and/or global economy, the money supply and other economic measures, Federal Reserve behavior, trade figures, inflation, etc. to determine the optimal duration, sector and quality of the debt securities held in the portfolio. Secondly, the manager chooses, for investment, specific sectors and industries consistent within the above mentioned factors. Finally, the manager picks specific debt securities to buy in the chosen groups.

Bottom-up - Refers to a manager whose practice it is second to choose the debt securities that are attractive buys because of specific characteristics of the security. They attempt to find values in these securities anticipated to create future opportunities for profit.

Interest Rate Anticipation - The interest rate anticipator employs an active bond strategy to adjust risk/return potentials based on attempting to anticipate change in various levels of interest. If interest rates are going up, the interest rate anticipator will shorten maturities. If rates are going down, maturities will be lengthened.

Market Timing - Market timing may be viewed as extreme interest rate anticipation. This manager is generally fully invested in long-term bonds if rates are expected to decline and up to 100% in cash if rates are likely to rise. There is little security selection involved: to implement very large purchases and sales very quickly, the timer uses only the most liquid bonds, usually Treasury Bonds.

Sector, Coupon, Credit Analysis - This style is often used in conjunction with other fixed income styles to select individual bonds. The current yield spreads between bonds in different sectors (e.g. U.S. Government versus corporate), with different coupons, or with different credit ratings are compared with the historic yield spreads to determine the most attractive sectors, coupons and credit ratings.

Indexing (passive investing) - A passive management style, indexing, involves buying a portfolio that replicates a chosen bond index in all characteristics (e.g. average maturity, coupon, quality). However, the portfolio holds only a fraction of the number of bonds in the index, but holds many more than in other styles of fixed income management. The goal is to match the performance of the index.

Duration - A measure of the effective maturity of a bond, defined as the weighted average of the times until each payment, with weights proportional to the present value of the payment.

Volatility - A measure of the size and frequency of the fluctuation in the value of a stock, bond or a portfolio. The greater the volatility, the higher the risk involved in holding the investment.

Convexity - A mathematical prediction of how a bond will perform relative to other bonds of similar duration given a specific change in interest rates. For example, a debt security is said to have positive convexity should a decline in interest rates produce a price rise above the average equivalent security and negative convexity should the decline in interest rates produce a price rise below the average equivalent security.

Intermediate Term Bond - Bonds with a maturity between three and ten years.

Long Term Bond - A bond with a maturity of ten years or more.

Investment Grade - Bonds rated BBB (Baa) or higher by Standard & Poor's Corporation and Moody's Investment Services. Investment Grade bonds are higher quality than high yield bonds and have lower credit risk.

Treasury Securities - A bond that is a direct debt obligation of the U.S. government issued by the U.S. Treasury. Backed by the "full faith and credit" of the United States, these bonds are considered among the safest investments carrying AAA/Aaa ratings.

Agency Bonds - Debt obligations issued by government sponsored organizations such as the Federal Home Loan Bank and Federal Land Bank. After Treasuries, agency bonds are considered the next highest quality securities in the domestic fixed income market.

Municipal Bonds - Bonds issued by a state or local government or one of its agencies to supplement tax revenues for use in operating or capital expenditures.

Mortgage Backed Security - A security in which a group of mortgages are pooled together and act as collateral for the issuance of the security. The Principal and interest payments of the underlying mortgages are "passed-through" to the security holder. These securities are issued through governmental agencies.

Asset Backed Securities - Debt securities representing pools of consumer loans, typically auto loans or revolving consumer debt.

Credit Bonds - Debt obligations issued by private corporations.

High Yield - Bonds rated BB (Ba) or lower by Standard & Poor's Corporation and Moody's Investor Service. High Yield bonds are lower quality than investment grade bonds and have greater credit risk.

Quality Rating - A measure of a bond issuer's credit quality, or its ability to meet future contractual obligations. Two widely used bond ratings systems are Moody's and Standard & Poors.

Coupon Rate – the annual rate of interest paid to the bond holder.

Yield to Maturity – Internal rate of return on a bond bought at the current price and held to maturity. This assumes that coupon income is reinvested at the yield to maturity.

Quantitative Terms

Alpha - a measure of value added by the manager. Specifically, alpha is the excess portfolio return compared to the risk-adjusted benchmark.

Beta - A measure of a stock's (or portfolio) price and performance volatility relative to the market (benchmark index). A beta of 1.00 means a stock has exhibited the same volatility as the market over the period measured. A beta of 0.85 means, in general, a stock is less volatile than the market (moves 0.85% for each 1.00% move in the market) where a beta of 1.15 means a stock is more volatile than the market.

Batting Average - A measure of a manager's ability to beat the market consistently.

Correlation Coefficient - a statistical measure of the degree to which the movements of two variables are related. A correlation of 1.0 indicates a perfect correlation. A correlation of 0.0 indicates a random relationship between the returns and a correlation of -1.0 indicates a perfect negative correlation (same magnitude in different directions).

Diversification - The reduction in risk that is sought by investing in assets that are not perfectly positively correlated. Diversification is the spreading of risk among a number of different investment opportunities.

Down market - A quarter in which the market return is negative.

Down-Market Capture Ratio - A measure of managers' performance in down markets relative to the market itself.

Information Ratio - A measure of the consistency of value added by an investment manager. Specifically the information ratio is the alpha divided by the variability of the alpha.

Peer Universe - a broadly defined group of investment managers (mutual funds) who employ a similar investment style.

R-squared - a measurement of how closely a portfolio's performance correlates with a benchmark Index.

Sharpe Ratio - A risk-adjusted ratio, developed by William Sharpe, calculated by using standard deviation and excess return to determine reward per unit of risk. The higher the ratio the better the fund's historical risk-adjusted performance.

Standard Deviation - A measure of the dispersion of a set of numbers around the average.

Time Weighed Rate of Return – A rate of return calculation that takes cash flow into consideration. Time-weighted rates of return by definition are calculated to minimize the effect of cash flows into and out of the portfolio.

Tracking Error - The amount by which the performance of the portfolio differed by that of the benchmark.

Turnover - volume of shares traded as a percentage of total shares currently held in the portfolio during a given period of time.

Up market - A quarter in which the market return is positive.

Up Market Capture Ratio - A measure of managers' performance in up markets relative to the market itself.